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World Business Newspaper MONDAY JUNE 19 1995

Shell pledges to go ahead with plan to sink oil rig

Anglo-Dutch oil giant Shell insisted there would be no last-minute change in plans to sink the Brent Spar oil platform, which today will approach its dumping site 150 miles off the west coast of Scotland. While the British government again defended Shell's actions, opposition parties joined calls across Europe for a boycott of Shell filling stations. Shell said it expected to sink the platform "in the middle of the week", although it stressed that bad weather could upset the timing. Two members of Greenpeace, the environmental protest group, will have to be removed from the Brent Spar before Shell uses explosives to sink the rig. Page 16

World Bank set to approve Mexico loan: The World Bank is poised to approve a $1bn loan, the single biggest in its history, as part of its backing for the multi-billion dollar support package for Mexico. Page 17

France's NF fails in local elections: France's extreme right-wing National Front party failed to take control of a number of towns where it was predicted to gain a high proportion of votes in local elections.

Twelve die in petrol station blast: At least 12 people were killed in an explosion at a petrol station at Eynaten, Belgium, owned by Belgian oil company Petrofina.

BZW poised to buy Wells Fargo Nikko: BZW, the investment banking arm of Barclays, is on the verge of buying Wells Fargo Nikko Investment Advisors, the US fund management group in a deal estimated to be worth between $500m and $700m. Page 17

Belgian bank looks set to win CLBN: Generale Bank of Belgium looked likely to be the preferred bidder to take over Crédit Lyonnais Bank Nederland, Dutch subsidiary of French bank Crédit Lyonnais which is selling off assets to ease its heavy debt burden. Page 20

BAe rules out derivatives in VSEL battle: British Aerospace ruled out using derivatives to underpin the value of any new bid for submarine builder VSEL. Page 17

G7 to step up crime fight: The Group of Seven leading industrial nations and Russia agreed to step up co-operation in the fight against international crime and to minimise the dangers posed by the use of civil nuclear power. Page 5

China warns Washington of crisis: China escalated the war of words over the visit to the US this month of President Lee Teng-hui of Taiwan by again bitterly denouncing the US and warning that relations were at a crossroads. Page 4

Opec worried by surge in output: Oil ministers from the Organisation of Petroleum Exporting Countries are due to meet in Vienna today against a worrying background in which non-Opec producers, including the UK and Norway, are taking the lion's share of the growth in world demand. Page 3

Rift over single market: Deep divisions over the completion of the European single market and the future of social policy emerged over a high-level report on the effects of legislation on competitiveness and job creation. Page 2

New Zealand face South Africa in final

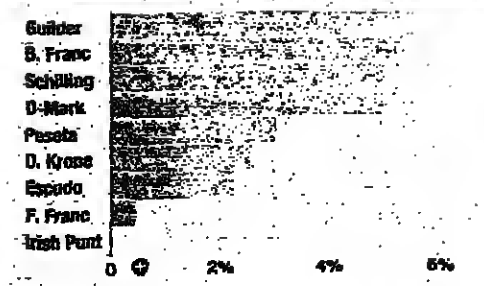
RUGBY WORLD CUP

Jonah Lomu ran over, around and through England's defenders for four tries, leading New Zealand to a 45-29 victory in their rugby world cup semi-final in Durban yesterday. The emphatic triumph, which included tries by Josh Kronfeld and Graeme Bachop and No 8 Zinzan Brooke's first Test drop goal, affirmed the All Blacks as favourites to win their second world championship in Saturday's showdown with South Africa at Ellis Park in Johannesburg. Page 4

McLaren cars dominate Le Mans: McLaren cars took four out of the first five places in the Le Mans 24-hour race. The winning McLaren was driven by Frenchman Yannick Dalmas, Finn J J Lehto and Japan's Masanori Sekiya. Second place went to a Courage-Porsche driven by French veteran Bob Wollek, Mario Andretti of the US and another Frenchman, Eric Helary.

European Monetary System: The relative stability of the dollar and generally quiet conditions in foreign exchange markets were reflected last week in the shrinking spread between strongest and weakest currencies in the EMS grid. The order of currencies was unchanged. Currencies, Page 27

EMS: Grid



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft185	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lev110.00	Iceland	IKr220	Nigeria	Naira60	Slovak Rp	SKS60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	CZK55	Israel	Shk7.90	Oman	OR1.50	Spain	Pta225
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y500	Philippines	Pso50	Switz	SFr3.80
Estonia	EKr 20	Jordan	JD1.50	Poland	Z 42,000	Syria	S£50.00
Finland	FM15	Kuwait	Fils625	Portugal (m'land)	Es230	Tunisia	Din1.500
France	FFr10.50	Lebanon	US$1.50			Turkey	L55,000
Germany	DM3.80	Lux	LFr70			UAE	Dh12.00

Bosnian Serbs free the last 26 UN hostages

By Laura Silber in Belgrade and Bruce Clark in London

Civilians die as shell hits water queue in Sarajevo

The Bosnian Serbs last night released the last 26 of the UN peacekeepers held hostage but faced fresh international censure after at least seven civilians were killed by a shell in a Sarajevo suburb.

The shelling of civilians queueing for water in a government-held district of the Bosnian capital was the first sign of Serb retaliation to the bid by government forces to weaken the 38-month-old siege of the city.

The atrocity was expected to trigger fresh calls, especially in the US Congress, for air strikes against the Serbs. But there were also signs that negotiations to ease the city's encirclement were making some progress.

Bosnian president Alija Izetbegovic said yesterday he would restrain government forces around Sarajevo if the Serbs withdrew heavy weapons and opened routes for relief convoys.

He also offered a ceasefire throughout the country if the Bosnian Serbs lifted their objections to an internationally sponsored peace plan.

Leaders of the Group of Seven industrialised nations and Russia ended their summit at Halifax in Canada on Saturday with an appeal for a halt to the violence, but there was little immediate sign that either side would heed the call.

Western diplomats said the ending of the hostage crisis, which developed on May 26 when the Bosnian Serbs captured nearly 400 peacekeepers, would give the UN greater flexibility in responding to Serb actions.

However, French President Jacques Chirac said he hoped the freeing of the peacekeepers would clear the way for a ceasefire, a negotiated end to the Serb blockade of Sarajevo and all-party talks.

A Bosnian official, in a hint that the city's plight could be eased by negotiation rather than force, said yesterday he believed the Serbs might be willing to restore water, electricity and gas to government-held parts of the city.

"I believe the Serbs . . . have realised it is senseless," said Mr Hassan Muratovic, a Bosnian minister without portfolio, in an indication that UN-mediated negotiations on easing the blockade might have made some progress.

The Bosnian government, which has so far rebuffed international appeals for an immediate ceasefire, said it had gained ground on three sides of Sarajevo before yesterday's lull in the fighting. The UN said it could only confirm government gains on the western side of the city.

Mr Haris Silajdzic, the Bosnian prime minister, said yesterday the government offensive had been aimed at averting fresh attacks on the capital, whose centre has been shelled intermittently since April 1992.

Mr Silajdzic said the case for ending the arms embargo against his country had been strengthened by yesterday's attack on the civilians.

The Bosnian Serbs denied having lost any ground in recent fighting and they threatened to strike back hard. Mr Momcilo Krajisnik, the chairman of the Bosnian Serb assembly, said his forces would "stop and break Moslem aggression against Serb Sarajevo."

The 26 captives - 11 Canadians and 15 military observers from other countries - were taken to Serbia by bus after the UN released four Serb soldiers who were captured in a firefight with French forces last month.

In Sarajevo, the UN mission was allowed by the Serbs to withdraw 67 soldiers from weapons depots and observation posts on Serb-held territory. They had been surrounded by Serb soldiers for the three weeks, and their withdrawal means the UN has given up trying to control heavy weapons in Sarajevo.

Russian premier in telephone talks

Chechen rebel commander Shamil Basayev inside the Budennovsk hospital where he was holding hundreds of hostages Picture AP

Hopes rise for end of Chechnya hostage crisis

By Chrystia Freeland in Moscow

Mr Victor Chernomyrdin, the Russian prime minister, yesterday used a crackling telephone connection with Chechen gunmen to secure the release of 200 hostages and raise hopes of a negotiated settlement to the crisis.

Mr Chernomyrdin's display of telephone diplomacy – shown to millions on domestic television – could be the start of a breakthrough in the four-day hostage crisis in the southern Russian city of Budennovsk. It is also likely to boost the political fortunes of the prime minister, who recently formed his own political party, at the expense of Russian president Boris Yeltsin, whose popularity has fallen further after what is seen as his mishandling of the Budennovsk attack.

Chechen gunmen responded to the telephone talks with the immediate release of 100 women and 100 children. Later yesterday, the Chechen guerrillas asked for six buses to take themselves, some of the hostages and a group of Russian MPs to a village in southern Chechnya. Mr Chernomyrdin ordered an immediate halt to Russian military activities in Chechnya and the commander of Russian forces in the region confirmed that decision last evening. A group of Russian officials yesterday flew to Grozny, the Chechen capital, to begin broader peace talks with Chechen separatists.

"Good day, Shamil Basayev, this is Chernomyrdin. It's a very bad line, can you hear me?" the prime minister bellowed in the highest level contact so far between Moscow and Mr Basayev, leader of the Chechen gunmen in Budennovsk.

With his grey suit, gold-rimmed glasses and silver pen poised over a notebook, Mr Chernomyrdin presented a reassuring image to Russian viewers, who are still angry about Mr Yeltsin's decision to attend the Group of Seven summit in Canada at the

Contioued on Page 16

UK networking group plans $300m purchase

By Antonia Sharpe in London

Madge aims to consolidate its market position

Madge Networks, the biggest UK-based computer networking group, plans to acquire an Israeli company for about $300m in a move to expand and consolidate its position in this fast-growing market.

Mr Robert Madge, who founded the company in 1986, said yesterday the purchase of Lannet Data Communications would make Madge the fifth-largest networking company in the world after Cisco, Bay Networks, Cabletron and 3Com, all much bigger US companies.

By buying Lannet, which specialises in making products for computer networking, Madge will be able to expand its range of "switching" and Asynchronous Transfer Mode (ATM) products, the backbone of the multi-media systems planned by many of the world's leading organisations.

Although based in the UK – Mr Madge runs the company from his 200-year-old farm in Buckinghamshire, southern England – its head office was moved to the Netherlands in 1993 in order to simplify a listing on Nasdaq, the US electronic exchange, the same year.

A trust controlled by Mr Madge currently owns 65 per cent of Madge NV, the Dutch parent, and it will retain a controlling stake of about 50 per cent in the new combined company. Lannet shareholders will have a shareholding of about 25 per cent.

Speaking from Paris en route to Israel to visit Lannet's 400 employees, Mr Madge said the acquisition reflected the trend towards consolidation in the market. He noted that his US competitors had been merging or buying smaller companies recently. Consolidation was inevitable because of the sheer pace at which computer networking was developing, Mr Madge said.

The acquisition of Lannet, which will be funded by an exchange of shares, came about because senior executives at the Israeli company had been actively seeking a bigger partner, he said.

The transaction, which needs shareholder approval, could be completed in four or five months. Madge has a market capitalisation of about $1bn and revenues of $213m in 1994. Lannet, which was listed on Nasdaq in 1991, has revenues of about $70m. The new combined company will have well over $100m in cash and about 1,200 employees.

Earlier this month in its latest Technology Forecast, Price Waterhouse said ATM was ideal for a wide range of applications including traditional data communications, imaging, video and multi-media.

"Of all the switching technologies, ATM is the one that holds the promise of handling all types of traffic well and providing a common telecom architecture in public and private networks as well as in the home," the report said.

Media futures, Page 11

US probe into Computer Associates' deal extended

By Louise Kehoe in San Francisco

The US Justice Department antitrust division is extending its review of Computer Associates' planned $1.7bn acquisition of Legent, one of two big US computer software industry takeovers announced in the past month.

The companies say they have received a "second request" for information from the Justice Department, while the Federal Trade Commission has International Business Machines' $3.5bn buyout of Lotus Development, a leading personal computer software company, under routine antitrust review.

CA and Legent said they have indications that the antitrust division may extend the review of their deal beyond the normal 30-day period. This raises concerns that regulators might impose conditions on the companies to prevent any anti-competitive effects of their merger, or even block the deal.

CA and Legent are two of the largest suppliers of software for use on mainframe computers, the large computers used in corporate data centres.

Whatever the outcome of the antitrust review, it appears likely to delay completion of the CA tender offer for Legent shares, scheduled to close on July 6. The government agency has 20 days from the time the companies comply with its request to determine whether the transaction would limit competition.

The Justice Department and the Federal Trade Commission routinely review about 2,000 big mergers and acquisitions a year. Fewer than 5 per cent are subjected to closer scrutiny with a "second request" for information.

In April, however, the Justice Department filed suit to block Microsoft's planned $2bn acquisition of Intuit, the leading supplier of personal finance management software. Microsoft backed out of the deal rather than undertake potentially lengthy litigation.

Announcing their merger plans last month, CA and Legent were confident they would not face antitrust problems. It now appears, however, that US antitrust authorities are taking a particularly close interest in the software industry after the Microsoft case.

Microsoft acknowledged 10 days ago that its plans to enter the online information services market are now under investigation by the Justice Department. The outcome of the inquiry has yet to be seen.

The increasingly stringent US antitrust environment also raises questions about IBM's acquisition of Lotus Development. But legal experts do not expect an antitrust challenge because neither company dominates in the personal computer software market.

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NEWS: EUROPE

Heavy fire aimed at EU 'wise men'

By Robert Taylor in London and Caroline Southey in Brussels

Deep divisions over the future of social policy and the completion of the European single market have emerged over a high-level report on the effects of legislation on competitiveness and job creation.

Some employer representatives on the committee drawing up the report, including Sir Michael Angus from the UK, have distanced themselves from a recommendation for a set of treaty-based labour rights, while trade unions have attacked its conclusions on the grounds that they undermine social policy.

The report, which is due to be presented to the European Commission today, was compiled by 17 EU "wise men" known as the Molitor Committee. It was chaired by Mr Bernhard Molitor, a former senior official in the German ministry of economics.

The committee was set up last year by EU member states to identify which laws and regulations should be abolished or simplified to improve competitiveness and promote job creation.

The report is due to be considered by the EU heads of state summit in Cannes at the weekend. If approved at Cannes, it will be used as a basis for detailed proposals for change from the European Commission, to be presented to the end-of-year EU summit.

The European Trade Union Confederation has urged the Cannes conference to reject the report's findings. Describing it as "flawed with few friends", the ETUC said in a statement that it was "deeply perturbed by the group's findings".

The committee's terms of reference were to examine national and EU-wide legislation and their effects on competitiveness and job creation and to recommend how regulations could be abolished or simplified.

The report, however failed to examine national legislation because of a lack of time and only considered EU-wide regulations. Nor does the report call for widespread deregulation.

However, it identifies areas, particularly in regulations covering social policy, food safety regulations, the environment, and standards for machinery where EU regulations are creating additional burdens for companies.

The group concludes that its findings will contribute to consolidating and simplifying EU regulations with the aim of stimulating competitiveness and reducing unemployment.

Sir Michael Angus, chairman of Whitbread's, the UK drinks group, backed by employers' representatives from Germany, Ireland and the Netherlands, has produced a minority report distancing himself from the social policy recommendations.

The report calls for a set of fundamental labour rights and principles to be enshrined in European law and applied directly in all member states.

The aim of the recommendation, which coincides with similar calls from Mr Pagraig Flynn, commissioner for social policy, is to reduce the amount of EU-wide secondary legislation in the social field, a commission official said.

However, the employers' representatives argue that the proposal would increase administrative and legal complexity, lead to endless litigation and would create legal uncertainty for businesses.

They also contend that it would be damaging to employment prospects and what they call the "long standing social traditions in member states and the carefully balanced relations between social partners".

Two union members of the group have produced a short opinion that opposes the report's conclusions. They argue that it is "characterised by an unacceptable one-sidedness" with no "objective" analysis of the impact of EU and member-state laws on competitiveness and employment.

They also argue that simplifying regulations and reducing the burdens of legislation "represents only one of the aspects of the question and certainly not the most important".

Ifo warns that much remains to be done to create a self-sustaining economy

E Germany still needs cash infusion

By Judy Dempsey in Berlin

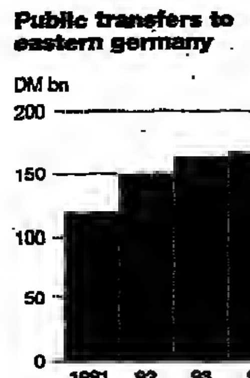
Eastern Germany's economy will grow by 8.5 per cent next year, but massive financial transfers from western to eastern Germany are likely to continue to be needed for some years, the Ifo Institute for Economic Research warns in a report published today. The financial transfers last year amounted to DM160bn (£70.7bn).

The report by one of the country's leading economic institutes is the most comprehensive analysis of the eastern German economy since the introduction of German Monetary Union (GMU) on July 1 1990 when the D-Mark and the East German Ost Mark were unified.

Ifo saya the engine for growth in gross domestic product is being fuelled by the high level of investments, and by the rapid expansion of the construction industry and the small crafts and trades sector. GDP expanded from DM206bn in 1991 to DM256bn in 1994.

Per capita investments in the east now outstrip western German levels. This year, they will amount to DM13,340 compared to DM9,125 in the west, which, according to Ifo, reflects one of the most important impulses for long-term growth.

Public transfers to eastern germany



Source: IFO

Another buoyant sector is construction, increasingly concentrated on modernising housing. It grew 18 per cent last year compared to 1993, and employs over 500,000. In 1994, it accounted for 40 per cent of eastern Germany's GDP.

Turnover in the small family-owned crafts and trades sector increased to DM90bn last year, the equivalent of a 313 per cent rise compared to 1989, while the number of employees in this sector rose by 170 per cent to 1.1m over the same period.

However, these positive indicators are not enough to create conditions for a self-sustaining economy. Ifo argues that the eastern German economy still faces fundamental problems in restructuring foreign trade, in competitiveness, and in the labour market.

The region is running a DM211bn trade deficit. Imports last year amounted to DM277.7bn compared to exports totalling DM66.9bn. The trade deficit, instead of decreasing, has risen sharply from 1991, when exports totalled DM46.9bn and imports DM199.2bn. An export-led economy in eastern Germany is not in sight, says IFO.

The sharp fall in exports, particnlarly for industrial goods, was due to GMU, which exposed the uncompetitiveness of eastern German products, and the collapse of Comecon, the socialist trading bloc which accounted for 65 per cent of East German exports.

The economy also remains hampered by high labour costs and low productivity. Ifo shows that on an index of 100, labour costs in the east are 35.7 points higher and productivity 52.7 points below west German levels.

The lowest levels of productivity are mainly in the manufacturing sector, which employs 600,000 compared to 3m in 1989. This sharp fall in manufacturing has led to and perpetuated high levels of unemployment.

According to Ifo, the rate of unemployment has decreased and is stabilising at about 13.5 per cent. Of the 6.3m labour force, 1.1m are officially registered as unemployed. But as Ifo points out, this does not include an additional 1.1m people who are on government-supported job creation schemes, engaged in (subsidised) short-time work, or who have been forced to take very early retirement.

The Bundesbank expects German economic growth to slow down and job creation to be held back as a result of the sharp rise in the D-Mark and recent high wage settlements, Andrew Fisher reports from Frankfurt.

In its monthly report yesterday, it called these two factors a "considerable burden" for companies at a time of relatively low profit margins. Competition in export and domestic markets had intensified sharply.

Thus companies would probably continue to rationalise and shift production abroad. The urgent need to create jobs at a time of persistent high unemployment would be hindered by industry's cost and profit situation.

But the Bundesbank said an economic collapse was not expected in view of the strong, broadly based upturn that began early last year. Its caution comes as growth forecasts are being scaled back in the wake of the D-Mark's strength.

THE ECONOMIC POSITION IN EAST GERMANY 1991 - 1994

	1991	1992	1993	1994	1992	1993	1994
	DMbn				% change on previous yr		
Gross domestic product	206.0	222.1	235.0	256.7	7.8	5.8	9.2
Domestic demand	358.3	412.0	434.2	467.6	15.0	5.4	7.7
Private consumption	179.6	196.9	202.3	211.4	9.6	2.7	4.5
State consumption	87.7	93.7	92.6	94.3	6.8	-1.2	1.8
Capital investments	92.1	117.7	134.2	156.3	27.8	14.1	16.5
Equipment	41.8	45.6	48.8	52.4	9.0	7.0	7.4
Buildings	50.3	72.1	85.4	103.9	43.4	18.5	21.8
Foreign trade balance	-152.3	-189.9	-199.2	-210.8	24.7	4.9	5.8
Exports	46.9	51.7	54.6	66.9	10.2	5.5	22.6
Imports	199.2	241.6	253.8	277.7	21.3	5.0	9.4
Consumer prices (% change on previous year)	12.8%	10.1%	8.4%	3.0%	—	—	—

Source: Statistisches Bundesamt

Enterprising families drive growth engine

By Judy Dempsey in Berlin

Rainer Manthei is exactly the kind of self-employed east German who, according to the influential Ifo research institute, is contributing to the region's economic upswing.

Mr Manthei, aged 37 and father of two children, runs a small office-cleaning business in the Mitte, the heart of east Berlin.

He set up his company soon after introduction of German Monetary Union (GMU) in July 1990 which unified the West German and East German currencies. Until the collapse of the Berlin Wall in November 1989, he had managed the cleaning department of the local education authorities.

"That job was badly paid. I was getting 700 Ost Marks a month. My wife, Susanne, was working earning 500 Ost Marks a month at the state health insurance company. It was nothing," he said. In 1989, the monthly running costs for their state-owned apartment was 300 Ost Marks, of which 150 Ost Marks was set aside for rent.

Like the 17m other East Germans, the first thing the Mantheis did after GMU was to exchange their savings for D-Marks. "We had savings of 25,000 Ost Marks. My wife and I were each allowed to exchange 4,000 at a 1:1 rate. We could exchange 2,000 Ost Marks for each child at the same rate. The rest of our savings were exchanged at 2:1. In all we got DM18,500 [£8,200]," said Mr Manthei.

But unlike so many other East Germans who had been starved for years of consumer goods, the Mantheis resisted the temptation to rush out and buy a new car, dishwasher, or video recorder. "I wanted to invest in my new business," said Mr Manthei. "I even kept by Trabby [Trabant car] until 1991."

With the savings, the Mantheis set to work. They hired four people on a monthly retainer of DM380. They could not afford all the employer's costs, and it was uncertain if the business would survive.

His wife, meanwhile, had managed to find work at the AOK, the western German state insnrance company which had taken over its eastern German counterpart. She was earning a net DM2,800 a month.

But Mrs Manthei, like the rest of the family, including grandparents and children, all help out cleaning the offices with Mr Manthei still putting in 80 hours a week. The profit margins are slowly increasing. Mr Manthei reckons he will have a turnover this year of about DM130,000. "After deducting costs of DM80,000, I'll come out with pre-tax profits of DM50,000," said Mr Manthei.

The family has also helped, through their savings, to raise the DM200,000 Mr Manthei needed to buy land to build a new house. "I didn't borrow a pfennig from the banks," he said. "I now have enough security to get a DM450,000 mortgage to build the house. You get a special low interest rate if you give up your state-owned apartment, which we did," he explained. In any case, he added, the monthly rent had soared to DM750 a month.

Mr Manthei believes hard work and motivation has got him where he is. "The possibilities are greater since GMU. I get more for my money."

Hurd puts argument against majority voting

By Bruce Clark, Diplomatic Correspondent

Wider use of majority voting could weaken, not strengthen, the European Union's effectiveness in world affairs, according to an article published over the weekend by Mr Douglas Hurd, the UK foreign secretary.

Writing in the Süddeutsche Zeitung, the German daily, Mr Hurd gave a firm but tactful riposte to the mounting campaign by senior German politicians for the inclusion of external relations in the areas where the EU allows majority votes.

Foreign policy moves by the EU would lose their credibility if it were known that some member states had opposed them, the foreign secretary said.

His line of argument was in strong contrast to last week's policy paper by Germany's ruling Christian Democrats, which calls for majority voting for all EU foreign policy decisions which do not involve military action.


Douglas Hurd: "not the kind of influence we are seeking"

Mr Hurd said Britain, and possibly Germany, might have been ontvoted hy their EU partners on the question of sanctions against South Africa if EU members had been using a majority voting system in the time of apartheid.

But a vote for tougher sanctions by a majority of EU states "would have served no useful purpose". Peaceful change in South Africa owed more to the influence of the UK and Germany than to other EU members which took a harder line.

The European Union could also be divided by the repressive behaviour of some regime nearer home, the foreign secretary suggested. In such a case, there would be little advantage in trying to paper over the cracks.

"Suppose, for example the government in a country close to the EU puts down a rebellion by force... [and] a couple of EU partners are reluctant to condemn this action, but all the others do," he suggested.

In that sort of case, it would become only too obvious which EU countries were dissenting and "that will not bring the kind of influence we are seeking".

Nor was it possible to do as as the German Christian Democrats were suggesting, and make a sharp distinction between military and non-military decisions.

If this principle were adopted, the EU could find itself supporting peace initiatives, or making threats, by a majority vote and then failing – because of the requirement of unanimity – to back its words with force.

Rising rouble adds to uncertainty in anarchic market

The Russian currency's seven-week spurt has raised questions about economic fundamentals, writes Chrystia Freeland

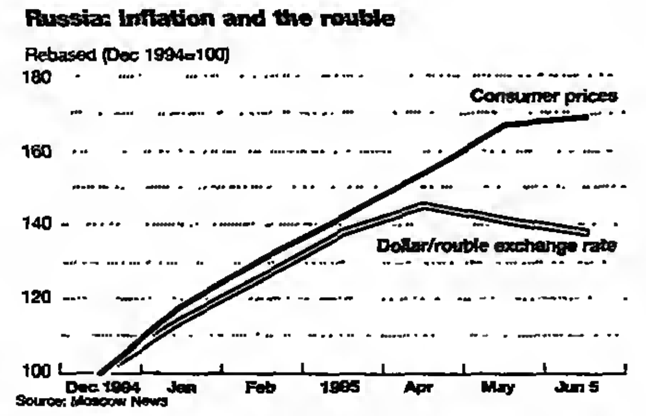
Throughout Russia's chaotic, four-year transition to a market economy, one tendency has been predictable: the steady depreciation of the rouble against western currencies. The rouble's steady decline has become such a reliable fixture in Russia's otherwise anarchic economic landscape that many stores and restaurants have taken to quoting prices in dollars, to avoid constant revisions of menus and price tags.


'Russians wonder whether the bubble will burst' *Kapital newspaper*

Ordinary Russians have raced to convert their savings into more reliable hard currencies, leading to the accumulation, by some estimates, of an unregistered $20bn (£12.7bn) within the country, and flight capital held in foreign banks of as much as $60bn. Even the Russian language has come to reflect popular expectations that the rouble is fated to depreciate: "valiuta" the generic Russian word for currency has come to mean dollars or D-Marks and "dereviannyi", a Russian adjective for wooden or worthless, has become the standard preface for references to the rouble.

However, over the past seven weeks, conventional wisdom has been turned upside down. Since hitting an historic low of Rbs5,130 to the dollar on April 29, the rouble has been steadily appreciating, rising to Rbs4,665 to the dollar in trading on Friday on the Moscow Interbank Currency Exchange. Analysts agree that the rouble is seriously undervalued and that a correction is in order. But they are troubled by the failure of a higher rouble to be transmitted to domestic prices, a problem which they attribute to import barriers.

Russia: inflation and the rouble



Source: Moscow News

The rouble's rise, which picked up steam last week, jumping 70 points against the dollar on Wednesday, 40 points on Thursday and a further 61 points on Friday, has elicited a mixed response from traders and economists. Opinion is divided on the engine driving the rouble's appreciation, with some economists pointing to healthy fundamentals but others linking it with back-room government manipulation. Many analysts have warned that the rouble's giddy rise is setting the stage for a dangerous collapse in the autumn.

The ambivalent reaction to the rouble's new-found strength is based on conflicting explanations of the rouble's rise. One school of thought attributes it to manipulation by the Central Bank, allegedly seeking a strong rouble to help secure the confirmation by parliament of Mrs Tatyana Paramonova, acting chairwoman of the bank.

But other western economists dismiss this conspiracy theory as "nonsense". They point to the Central Bank's massive sale of dollars – $300m last Wednesday alone – as evidence that the bank is seeking to slow the rouble's appreciation rather than artificially stimulate it.

According to this view, the rouble is rising not thanks to some hidden government cabal, but due to economic fundamentals.

Russian government officials and some western economists attribute the rouble's rise to several underlying factors. One is the very tight fiscal controls which the government imposed this spring, including a sharp rise in the rouble-denominated reserve requirements for commercial banks.

Another is the high rate of return that rouble-denominated instruments, particularly government debt, are currently offering in the Russian market. A third, more ephemeral factor, is growing public confidence in the economy, triggered by, according to some estimates, a slight growth in industrial production last month and reflected in the rising value of Russian equities.

Together, one western economist says, these elements have encouraged Russian banks and investors to transfer their assets from dollars into roubles and stimulated the beginnings of a return of Russian flight capital.

But while the rise of the rouble ought to be a healthy omen of returning public confidence in the economy, many western and domestic analysts warn that the rouble's giddy appreciation poses dangerous risks for the Russian government.

Mr Boris Fyodorov, former finance minister and now an outspoken opponent of the government, is warning that the rising rouble has become a fragile balloon, likely to burst in the autumn with devastating consequences for the economy. "The rouble's rise may lead to a rouble crisis and a one-time devaluation of citizen's savings in the autumn," Mr Fyodorov said.

The Cassandras have two main concerns. Their first is the stubborn resistance of the inflation rate to fall in response to the same factors which appear to have driven up the rouble. Until the end of April, when the rouble began its striking appreciation, the decline of the Russian currency faithfully mirrored the inflation rate. But, since then, while the rouble has launched a powerful ascent, inflation has also remained high. It was 8.5 per cent a month in April, 7.9 per cent in May, and experts predict 6 per cent this month.

Indeed, the Central Bank's efforts to moderate the rouble's rise are actually expected to give a further boost to inflation. By buying dollars, the Central Bank has risked neutralising its tight credit policies, flooding the markets with an inflationary influx of roubles. In April, Russia's M2 money supply – currency in circulation and time deposits – rose by 15 per cent, and increased a further 7 per cent in May.

The other fear is that the rising rouble rests on an economy too fragile to support it.

After the traumatic shock of Black Tuesday last October, when the rouble lost nearly 25 per cent of its value in a single day of trading, the appreciation of the Russian national currency is a welcome sign for the government. But the mixed reaction of traders and economists suggests that the Central Bank must walk the tightrope between inflation and an appreciating rouble very carefully if it is to avoid a second, more devastating, replay of last year's crash.

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Pilots fly high among headlines but take some flak

AIRLINE STRIKES

INTERNATIONAL PRESS REVIEW

Airline strikes last week made the headlines in Italy, Scandinavia and India. Pay or restructuring was at the heart of the protests at Alitalia, SAS and Indian Airlines. But, in a demarcation dispute at the Indian carrier, pilots put on a show of pique: junior pilots refused to fly with senior stewardesses and flight attendants drawing higher salaries.

In Italy, the public has long been used to transport strikes. Stoppages of trains, bus services and airlines are sufficiently frequent for the public to take them in their stride and the press consequently downgrades them as news.

The latest trouble with protesting pilots at Alitalia, the state-controlled national airline, has hit the headlines, however. This is not because it was a significant case of industrial action but because the public were desperately inconvenienced. Some 480 out of 522 flights were cancelled on Thursday.

"The damned of the airports," thundered *La Repubblica*. More alarmist, the front page of *Il Giornale*, the daily of the Berlusconi family, declared: "Italy hostage of the thoughtless flyers".

With airports close to newspaper offices, the chaos among stranded passengers provided a rare safe chance for Italian reporters to turn their polished prose on a live story. Il Giornale surveyed the scene at Milan. "Signore e signori, ladies and gentlemen, mesdames et messieurs, welcome to the madhouse Alitalia.... if you want a seat on this ship of fools, step aboard because the spectacle varies between the comic and the insane. . ."

A more terse front-page summary in the *Corriere della Sera* caught some of the confusion. "Government intervenes; the wild-cat flyers won't co-operate: we're ill, not on strike. Negotiations in the night: some flights guaranteed. A military plane for MPs? Immediate controversy."

In more sober tone, *La Stampa* said in an editorial that the abuse of indnstrial protest undermined the whole nature of the protest.

In Scandinavia, too, striking pilots grounded SAS flights. Judging by the press reaction, public frustration was mostly directed at the SAS pilots rather than the company before the pay dispute was finally settled last week.

SAS is a company of tortuous construction, built from Danish, Norwegian and Swedish interests in which all three governments have a stake. Its labour relations are similarly complex, involving more than two dozen unions. As *Aftenposten*, the Norwegian daily, pointed out, the pilots' action brought to 12 the number of strikes within SAS in recent months.

Aftenposten was not impressed by the pilots, who, it pointed out, have an average salary of about $80,000 (£51,000) a year. "The SAS pilots' action hardly has the sympathy of other workers groups," it remarked.

Dagens Industri, a highly successful Swedish business tabloid, also had a shot at the pilots.

The paper warned the SAS pilots that they put their own jobs at risk by launching ill-judged strikes in an era of growing airline competition.

But SAS itself was not immune from criticism. Despite deregulation in the Nordic area in recent years, in practice SAS still has a powerful grip on flights within Scandinavia, where ticket prices are sky-high. The strikes emphasised the lack of choice on many routes.

Svenska Dagbladet, the voice of Sweden's conservatives, took up this issue under the headline "Growing dissatisfaction with SAS", citing the irritation felt by many big Scandinavian corporations over SAS's dominance, which is set to be entrenched by its recent strategic co-operation agreement with Lufthansa of Germany.

In India, more than 50 flights of Indian Airlines, the country'a state-owned domestic carrier, were disrupted when junior pilots refused to fly with senior stewardesses and flight attendants drawing higher salaries, saying it affected the well-defined hierarchy on board.

The pilots, who have several times in the past held the airlina and the travelling public to ransom, have been threatened with legal action and suspension hy the airline.

Newspapers pointed out that the pilots' agitation had been weakened by the fact that Indian Airlines no longer holds a domestic monopoly since liberalisation two years ago.

The newspapers reported that pnblic sympathy lay almost entirely with the eight recently promoted flight attendants, and not the striking pilots.

The *Talegraph* of Calcutta said Ms Nilika Roy, an air hostess with 32 years of service, was "humiliated" when pilots forced her to fly as a passenger and did not allow her to carry out her duties on a flight assigned to her. The *Indian Express* in a hard-hitting editorial hlamed the pilots for their "petulant behaviour which none of the issues involved warrants". The paper said the recent improvement in the airline, spurred by competition, had been "sadly blurred by the tantrums of its pilots".

Robert Graham in Rome, Hugh Carnegy in Stockholm and Shiraz Sidhva in New Delhi

INTERNATIONAL NEWS DIGEST

Managua ends reform dispute

Nicaragua's telephone privatisation is back on track after the government and Congress reached agreements to end a long-running dispute over constitutional reforms which has tried the patience of foreign donors and international lending institutions.

Nicaragua's president, Mrs Violeta Barrios de Chamorro, approved reforms last week – insisted on by Congress before it would discuss privatisation legislation – which devolve power from the executive to Congress. Close relatives of the incumbent president will also be barred from running for the presidency. "If these agreements hold and don't unravel, I think things look pretty positive," said a Managua-based foreign diplomat.

Approval of the reforms removes the principal obstacle to legislation on the partial sale of the state telephone company, Telcor, and means that international donors will not lend an unsympathetic ear at a meeting in Paris today. The government hopes to secure funding of some $400m (£254.7m) for next year.

Congress is expected to pass a regulatory law for Telcor which has already been broadly agreed before debating details of the sale by the end of July, about a year later than had been hoped. *Edward Orlebar, Managua*

Lebed's successor forced back

The Russian government got its first taste of popular support for maverick General Alexander Lebed, left, at the weekend when women protesters forced his Moscow-picked replacement to flee Moldova. The conflict between the outspoken general and Moscow erupted earlier this month when Gen Lebed, who commanded Russia's *14th army in* Moldova's breakaway Transdnestr region, tendered his resignation to protest at the Russian government's plans to withdraw the army within three years. Last week President Boris Yeltsin tried to end the showdown by accepting Gen Lebed's resignation and *appointing Major General Valery Yevnevich as his successor.*

On Friday, 500 women protesters blocked the runway in Tiraspol, capital of the Transdnestr, forcing the aircraft carrying Gen Yevnevich to be re-routed to neighbouring Ukraine. Gen Yevnevich *later arrived by helicopter* but Gen Lebed's supporters were undeterred.

Women protesters surrounded the garrison hostel where Gen Yevnevich was billeted. On Saturday Gen Yevnevich, accompanied by the protesters, was driven to the airport and flown to Moscow. Gen Lebed has been touted as a possible Russian presidential candidate. *Chrystia Freeland, Moscow*

Levy splits from Likud

Israel's rightwing opposition Likud party formally split last night as Mr David Levy, the former foreign minister, told supporters he was leaving Likud after nearly three decades to form a new centre-right party. The split will seriously damage Likud chances of winning the next general elections in November 1996 and harm the ability of the right wing to mount an effective opposition to the Labour-led government's Middle East peace negotiations with Syria and the Palestinians.

Mr Levy also said he would stand as a candidate in next November's direct election of the prime minister, thereby ensuring a right-wing split in the first round of voting. Recent opinion polls have shown that a united Likud party would trounce Labour in a parliamentary election and that Likud leader Benjamin Netanyahu is leading Prime Minister Yitzhak Rabin by at least 12 points as choice for prime minister.

Polls taken before last night's formal split showed that an alternative party led by Mr Levy could expect to win five to eight of the 120 parliamentary seats, depriving Likud of a clear victory. *Julian Ozanne, Jerusalem*

Belgian programme agreed

The two Christian Democrat and two Socialist parties in Belgium's outgoing coalition yesterday agreed a programme that will form the basis for their next government. "The negotiations are finished, there is a definitive agreement on a final version of the text," a spokeswoman for Prime Minister Jean-Luc Dehaene said. Mr Dehaene headed the team that negotiated the new centre-left government after last month's general election and is poised to become prime minister again.

The four parties – the *Flemish Christian Democrats,* Flemish Socialists, Francophone Christian Democrats and Francophone Socialists – agreed in principle on Saturday to form a new government. The spokeswoman said Mr Dehaene could now focus *his attention on forming a cabinet. The pact* will allow him to attend the European Union summit in Cannes on June 26 and 27. *Reuter, Brussels*

Italian industrial strife brews

The Italian government faces a *stand-off* with unions in the public transport sector following Saturday's unprecedented decision to ban all strikes for a week. Yesterday pilots of Alitalia, the national airline, appeared to be observing an uneasy truce following last week's crippling industrial action to protest at a rationalisation of the carrier's operations. Italy's airports were almost back to normal.

Railway workers also held off from a strike due to begin yesterday and last most of the week. But unions belonging to maritime unions pledged to go ahead with stoppages lasting until the end of the month.

The government can ban strikes for seven days under a 1990 law which also provides an array of sanctions. If the truce is not observed the sanctions include banning unions from negotiations. *Robert Graham, Rome*

China's exports rise 50%

China's trade surplus reached $10.2bn (£6.4bn) in May, compared with *a deficit of $1.7bn in the first five months* of 1994, after exports surged by nearly 50 per cent to $55.9bn. China, according to the official Business Weekly newspaper, is heading for a trade surplus this year of $5.3bn, about the same as last year.

Chinese economists expect export growth to slow in the second half of the year and imports to pick up. Among factors expected to cause a slowdown in exports is the strengthening yuan. The local currency has appreciated by about 5 per cent against the dollar in the past year. *Tony Walker, Beijing*

Chinese dissident released

An unrepentant Liu Gang, one of the leaders of China's pro-democracy protests of 1989, has been released after six years in prison. One of the more prominent dissidents to be released in the past year or so, Mr Liu told Reuters news agency from his home in Jilin province, north-east China, that his movements were restricted and that he had been told not to talk to foreign reporters. *Tony Walker, Beijing*

Record low for Cuban sugar

Cuba has produced 3.3m tonnes of sugar in its 1994-95 harvest, the lowest Cuban *sugar crop in more* than 50 years and its third disastrous crop in a row, Vice-president Carlos Lage has said.

Cuba has been trying to haul its sugar-exporting, oil-importing economy out of a five-year slump that followed the break-up of the former Soviet Union, which traditionally imported 4m tonnes of Cuban raw sugar each year and supplied fuel and fertilisers. *Pascal Fletcher, Havana*

Election pledge prompts Algiers talks

Roula Khalaf reports on the political intrigue surrounding the lastest peace moves

At a hillside villa above Algiers bay, where the two senior leaders of the Islamic Salvation Front (FIS), Mr Abassi Madani and Mr Ali Benhadj, lived for months under house arrest last year, the Algerian government is holding fresh talks with the FIS, apparently in an attempt to end the violence.

Just across the street, the entrance to the well guarded El-Djazair hotel, home to foreign visitors and many foreign residents who no longer dare venture on the streets of Algiers, reveals a clue as to why contacts with the FIS have resumed. A banner on the wall reads: "Elections – *being* proud to be Algerian". It is one of many around the city equating elections with modernity, nationalism and the choice of a happy future.

The Algerian government is determined to hold presidential elections by the end of the year. With only six months to go, and the country's main opposition parties, including the FIS, opposed to elections before a negotiated end to the violence is achieved, the Algiers political scene is again brewing with intrigue.

Official army-backed government talks with the FIS leadership broke off last October and the two FIS leaders, who had been released from prison and placed under house arrest, were moved to separate, unknown locations. Since then, hardline generals have pushed a *military* option aimed at eradicating the Islamist militants.

Convinced the military option is destined for failure, Algeria's former ruling National Liberation Front, now the country's main secular opposition, and the Berber-based *Socialist Forces Front, in* January agreed a national contract with the FIS committing the Islamist party to principles of democracy and proposing a phased end to the crisis through multilateral discussions with the government. The contract, signed in Rome, met an angry reaction from the government, which dismissed it as foreign interference in its affairs.

The government had its own plan. Last November, Gen Liamine Zeroual, the president, announced presidential elections would be held by the end of 1995. Given the wide constitutional powers enjoyed by an Algerian president, assuring the presidency remains within army control was a priority. The major political parties, including the FIS, say that in the absence of a negotiated solution *ending the* violence, the elections are a futile exercise aimed at lending legitimacy to the government.

The president is expected to announce a date for the elections on July 5, the anniversary of Algeria's independence.

The question for the rest of the Rome coalition, however, is whether the talks are simply aimed at dividing the ranks of the coalition and convincing a sceptical electorate that the FIS is incapable of negotiating an end to the crisis, in which 40,000 Algerians have died.

Some opposition figures are willing to believe, however, that the move is an attempt at striking a deal with the FIS whereby the Islamists would help reduce further the level of violence and back a candidate chosen by the army, in return for the unbanning of the party *and free legislative elections.*

This thesis may be supported by the inclusion in the talks, for the first time, of Mr Abdelkader Hachani, the FIS leader who headed the legislative election campaign in 1991 when the FIS won the first round. Mr Hachani has been in prison since 1992.

Opposition parties say the government was encouraged by a recent letter by Mr Madani to the president denouncing certain acts of violence. The letter follows others sent by the Islamic Salvation Army, the armed wing of the FIS, calling for a resumption of political dialogue.

The outcome of these talks *hinges on whether the* presidency, the interlocutor in these talks, is backed by a consensus within the army and thus able to provide concessions and whether the FIS group talking to the government includes the more hardline Mr Benhadj, who has a following – and thus *influence – in the more* extremist Islamic groups.

Madani: denounced violence

Opec worried by surge in rivals' oil output

By Robert Corzine in Vienna

Oil ministers from the Organisation of Petroleum Exporting Countries meet in Vienna today against a worrying background in which non-Opec producers, such as the UK and Norway, are taking the lion's share of the growth of world demand.

Analysts do not expect the ministers to make any changes to either the Opec production ceiling or the individual national quotas, the two issues which have proved most divisive over the past few years.

The production ceiling of 24.52m barrels a day is due to last until the end of the year. *Actual Opec* output has been just over 25m b/d, according to analysts. But the over-production has so far not been enough to undermine prices.

In fact, the ministers are likely to take some satisfaction from recent prices, which have been in the $16-$18 range for much of the year. That is far below Opec's target of $21 a barrel and ministers are likely to make their usual complaints about the damage such low prices can do to the long-term availability of world oil supplies, let alone to the political stability of some Opec states.

Current prices are high enough, however, to have lifted at least some of the financial pressure on Opec states. There will be some grumbling from Iraq and others about the impact on their oil revenues from this year's fall in value of the US dollar, although there is unlikely to be any serious move to shift oil pricing to Japanese yen or a basket of currencies.

But if the short-term outlook is relatively rosy, the medium-term prospects for Opec states are more problematic. Their main worry is how to capture the growth in world oil demand that is currently being met by non-Opec producers.

"It's a big issue for Opec," says Mr Vahan Zanoyan, a director of the Washington DC-based Petroleum Finance Company. Opec's strategy has been "*to sit tight in the hope that all* will be fine when demand rises". Many Opec ministers viewed last year's surge in *non-Opec production as temporary.* But there are still no signs of a slowdown in non-Opec output. The latest report from the International Energy Agency in Paris, which monitors world oil trends on behalf of the big industrialised countries, predicted that non-Opec output would rise again this year to 42.05m b/d, compared with 41.16m b/d last year.

The surge in non-Opec output could even affect prices. Mr Michael Rothman, senior energy futures analyst with Merrill Lynch in New York says there is a possibility of downward pressure on oil prices over the next few months, *especially* if there is a slowdown in G7 economies.

There is a growing acceptance among some Opec producers that they may not be able to raise the production ceiling next year. "It will be very difficult to raise the ceiling given the growth in non-Opec output," said a senior official from one of the large Gulf Arab producers. The official added: "We intend to capture some of the growth in demand."

But there are few specific proposals for doing so. There have been unsuccessful appeals to countries such as Norway to exercise some restraint. Mr Zanoyan, however, says that short of threatening non-Opec with a price war, there is little Opec can do.

Some countries, such as Kuwait, are intent on increasing their production capacity even though it will have to *remain shut-in* for as long as the present ceiling remains in effect.

Call to pay US directors in stock

By Tony Jackson in New York and William Lewis in London

Non-executive directors in the US should be paid largely in stock and get no company pension.

These are among tough recommendations on non-executive directors' pay and conditions by the influential National Association of Corporate Directors.

The report also suggests US directors should not accept company business from other companies which employ them, and that their full compensation should be disclosed.

The report complements an earlier NACD study on the controversial issue of executives' pay. Mr John Nash, president of the NACD, said: "What we're aiming at here is for shareholders to hold directors to the same accountability as directors do the CEO [chief executive officer]. Making directors hold stock is a good way to do that."

The report says directors should receive up to 100 per cent of their annual payments in the form of stock, with the balance in cash. They should be also required to own stock – rather than stock options – amounting to as much as 10 times their annual retainers and fees.

The NACD report is likely to fuel debate in the UK on executive pay, which the UK government-appointed Greenbury committee is now examining. However, US directors, who are mostly non-executive outsiders, do not typically receive the multi-million dollar salaries enjoyed by some executives.

The report estimates the average compensation for *directors of the* top *500 US corporations* at $60,000 (£38,216). It says the figure has risen considerably faster than inflation in recent years, with an increasing proportion consisting of perks such as pension entitlements.

The report criticises the *growing practice* of providing directors with pension plans, health care and free company products and services. These create dependency, it says, and can thus align directors' interests with the company rather than shareholders. They also treat directors as if they were employees, rather than shareholder appointees on a one to three-year term.

Directors should not act as consultants to the company, the report says. Nor should a director's employer, such as a law *firm* or a bank, provide services to the company. If it does, this should be disclosed in detail to shareholders, with an explanation of why it provides better value than is available elsewhere.

Directors' compensation should also be fully disclosed. The US Securities and Exchange Commission requires disclosure for top executives, but not directors. Companies should move to disclosure ahead of any SEC requirement, the report says.

Besides academics and lawyers, commission members included the chairmen of two leading US manufacturers: AMP, the electrical giant, and Scott Paper, which last year moved to paying directors wholly in stock.

Mr Charles Elson of Stetson University College of Law, a commission member, said that by comparison with the NACD report, the provisional findings of the Greenbury committee represented a "band-aid". "Greenbury does not appear to have gone to the heart of the problem, which is about ensuring that outside directors are tougher on executive pay."

Non-executive pay, UK News

NEWS: INTERNATIONAL

Sino-US relationship at a crossroads, says angry Beijing commentary

China warns Washington of crisis

By Tony Walker in Beijing

China, in a further escalation of the war of words over the visit to the US this month of President Lee Teng-hui of Taiwan, has again bitterly denounced the US and warned that relations are at a crossroads.

In the worst flare-up in Sino-US relations since they were normalised in 1979, China said yesterday it would reserve judgment about the future direction of relations, hinting at possible additional retaliatory measures.

"Sino-US relations are once again at a crossroads. We will wait and see where the US actually wants Sino-US relations to go," said a vituperative commentary carried by the official Xinhua news agency and splashed on newspaper front pages.

The commentary accused Washington of failing to live up to its commitment on Taiwan, with the result that the issue had become the "main obstacle" to the normal development of Sino-US relations.

China regards Taiwan as a renegade province, and the island's reunification with the mainland has been one of the cornerstones of Beijing's domestic and foreign policy since the Communists seized power in 1949.

Yesterday's renewed attack on the US came after a terse announcement that Mr Li Daoyu, China's ambassador in Washington, was being recalled to Beijing for consultations.

Mr Li's recall is the latest in a series of largely symbolic gestures by Beijing aimed at showing its continuing displeasure over the Lee visit. China has also cancelled visits by high-ranking officials to the US and frozen military co-operation.

In Beijing, western officials said it was not clear whether the latest Chinese outburst would be regarded as sufficient protest for the time being.

"The decision to bring home the ambassador is a classic diplomatic expression of displeasure," said one western official. "This is a stern move, but not a serious escalation at this stage."

Mr Li's recall also coincides with the departure from Beijing on Saturday of Mr Stapleton Roy, the long-serving US ambassador. Mr Roy had come to the end of his term, but his replacement has not yet been approved by Congress.

The US and China will not, therefore, have ambassadors in each other's capitals for months, at a sensitive and fractious moment in relations.

Chinese sensitivities over the Taiwanese issue have been sharpened by further signs of Taiwan's progress in breaking out of its diplomatic isolation, including the current visit to Austria, Hungary and the Czech Republic by Prime Minister Lien Chan – the highest-level visit to Europe by a Taiwanese official since 1949.

Beijing, in protest over Taiwan's recent diplomatic forays, has called off talks in July to prepare for a meeting due in September on co-operation across the Taiwan Straits.

In Washington, US officials said they had proposed sending a senior representative to Beijing for talks aimed at calming the current row over Taiwan, but China had not yet responded.

End of textile exports co-operation threatened

By Jenny Luesby

China has threatened to stop co-operating with the US in curbing illegal exports of textiles and clothing unless Washington rescinds quota cuts imposed last month.

The cuts, announced on May 3, were made under the bilateral trade agreement of last year which gives the US the right to charge proven illegal exports against China's quotas, after consultations.

The US Commerce Department said the consultations required under the accord were held before last month's cuts. But China is describing the cuts as unilateral.

It also claims that the US has failed to respond to a Chinese letter of May 22 demanding that the cuts be rescinded and suggesting that a joint inspection panel be set up to investigate illegal trades.

"If the US persists in sticking to its incorrect position of unilateral quota chargebacks, the Chinese government cannot but take corresponding actions to defend the interests of China," said an official from China's Ministry of Foreign Trade and Economic Co-operation.

He said the cuts had seriously impeded the healthy development of Sino-US trade. But China's annoyance may also reflect its own rising frustration at the scale of the illicit trade.

It has introduced increasingly severe measures to curb the exports in recent years, including banning companies from trading if they export goods that are re-exported from third countries carrying false country-of-origin labels.

It has also increased its co-operation with US investigators and agreed to a provision in last year's trade accord that allows the US to cut quotas by up to three times the volume of illegal exports in the event of repeated contraventions.

But the policy appears to have backfired, with the last two rounds of cuts, the first of them in July last year, proving the largest since 1991, and costing China $100m (£63.6m) in lost sales, it claims.

Chinese authorities say it is becoming impossible to curb the trade as they move towards greater decentralisation.

And even if control were more centralised, or the bureaucracy more effective, China would still face a problem, in that much of the trade, mainly in cotton T-shirts, is instigated by middlemen in third countries.

Beijing mulls reform of state enterprises

By Tony Walker in Beijing

China is focusing its reform energies on 1,000 key state-owned enterprises under a new policy initiative flagged at a World Bank-sponsored workshop in Beijing.

Mr Wang Zhongyu, chairman of the State Economic and Trade Commission, told the opening session this month the government was earmarking for rehabilitation about 1,000 state companies among China's 14,000 large and medium-sized enterprises.

Mr Wang's remarks were interpreted as signalling that a consensus was emerging among China's leaders under which the state would increasingly concentrate its energies on larger key industries. Those enterprises not deemed to fall within this category would be obliged to fend for themselves, and may become candidates for divestiture.

Under the new proposals, state companies would receive central government assistance in modernising plants and achieving greater competitiveness. This might come in the form of tax incentives or direct grants for new technology.

Chinese officials have been reluctant to spell out plans for the state sector too clearly because the issue is highly political. Unemployment and possible social unrest are among serious concerns.

The government is considering grouping key enterprises in larger industrial conglomerates, or holding companies, as a means of improving efficiency. However, World Bank advisers have urged caution because of worries that this would simply create additional public-sector monsters.

Reform of the state sector is now China's most pressing challenge, but the government is proceeding hesitantly at an uncertain moment in the country's political transition to a new generation of leaders.

The World Bank seminar, one of a series of such events sponsored by the bank, devoted much of its discussion to ways in which the "governance" of enterprises could be improved, and what international models might be suitable for a mixed economy. The German "model" was one of those discussed.

Mr Nicholas Hope, a senior World Bank official and "moderator" of the Beijing seminar, said that among conclusions was a need for China to press ahead with broad-based reforms.

"Enterprise reform is not going to work effectively without banking reform so that the discipline of the financial system can help to improve enterprise performance," he said.

But he added that it was unrealistic to expect enterprises to reform themselves without the pressures of the marketplace. "There's got to be a process whereby you make things progressively more difficult for enterprises so they will try to come up with reforms," he said.

The Information Industry News reported last week that 159 state enterprises in larger cities had gone bankrupt in 1994, and another 83 such enterprises were slated for bankruptcy this year. In 1994, about one-third of China's 14,000 large and medium-sized enterprises were loss-making.

Home 'ministries of finance' buy euroyen

Japanese housewives are looking to foreign bonds, report Emiko Terazono and Richard Lapper

The Japanese housewife has begun to rival the legendary Belgian dentist in the minds of Euromarket brokers looking for bond investors. With the Tokyo stock market in crisis and bank interest rates at record lows, cautious Japanese have turned to Italian and Brazilian bonds for better returns.

Given Japanese investors' fears of foreign exchange losses, the most important attraction is that these bonds are yen-denominated. Among those tempted has been Mrs Kimie Yamaguchi, a 30-year-old housewife, who received a call from her broker earlier this month about a euroyen issue by the Swedish government.

"It seemed strange at first. But I was told it was free of foreign exchange risk and also the usual fee on the account would be free," Mrs Yamaguchi said. She bought Y4m (£29,400) worth of the paper.

Japanese institutions such as life companies and banks still take the largest share but issuers are increasingly aiming at small investors. The first tranche of Italy's record Y650bn issue last month was directed at retail buyers, and attracted about 50,000 separate investors.

On the same day that Italy announced its record-breaking bond, Brazil returned to the euromarkets for the first time since the Latin American debt crisis in the early 1980s, with a Y50bn bond. So far this year, Sweden has raised more than Y200bn, while Tunisia and Hungary have been among countries raising money through so-called samurai bonds, domestic Japanese issues by foreigners.

"This is a market that is really taking off," says Mr Philip Brown, head of capital markets for Nikko Europe, the arm of Nikko Securities, the Tokyo financial house. "It is a new investor base which, until a year ago, had never bought international bonds before. There is huge potential in the Japanese market."

Issuance has surged over the past 18 months. The value of yen-denominated eurobonds has increased from the equivalent of $23.4bn (£14.9bn) in 1990 to $71bn in 1994, and to $32bn so far this year, according to figures from Euromoney Bondware. Yen-denominated eurobonds now account for 16.8 per cent of total international eurobond issuance compared with 10.2 per cent in 1993.

And over the last 18 months average monthly issuance of yen-eurobonds has more than doubled, with 763 issues in the 12 months to the end of May 1995 compared to 289 issues during the whole of 1993. The increasing supply has been met with demand from Japanese investors, including housewives, known as the "Ministry of Finance" for their influence over the household budget.

Mr Sumihiro Kawabata, a 56-year-old office worker, invested, with money he says was squirrelled away behind his wife's back, in paper issued by the New South Wales Treasury Corporation in Australia. He said his employer had stopped buying stocks, which was the signal for him to buy bonds: "These Euroyen bonds are safe unless the country collapses."

The slump in the stock market is one motivation for bond investment. The Nikkei 225 index hit its lowest point for three years last week, with share prices having lost more than a third of their value in the past year. Not only have savers avoided shares, the fall in market turnover has prompted the sales networks of Japanese securities houses to look for new products.

The decline in interest rates in Japan is another reason to look abroad. Returns on 10-year Japanese government bonds have fallen from 4.6 per cent to 2.8 per cent over the past five months, while the cut in the official discount rate to a record low of 1 per cent has depressed rates of return on bank deposits. Returns from a three year so-called "large lot" bank deposit are only 1.35 per cent. But, for example, a recent eurobond issued by Sweden, which carries a relatively good double A credit rating, offers investors a coupon of 2.45 per cent.

And, at a time of volatility in the currency markets, the yen denomination of these bonds provides small investors with an important element of security.

Mr Hiroshi Ishii, head of retail bond sales at Nikko Securities in Tokyo, says overall demand for yen bonds among private investors has risen since October last year, when five-year deposits with high yields – opened when interest rates were at their peak – started to mature. Japanese institutions are making many of the same calculations as smaller investors.

"Euroyen issues come in large lots and are attractive to investors who have lost out in the race to buy Japanese government bonds," says Mr Masataka Sera, an analyst at Sanwa Bank's capital market's division.

Regulatory changes have helped broaden the investor base for eurobonds. Over the past year, the Japanese government eased limits on yen issues by non-Japanese issuers and reduced the restrictions on Japanese purchasers.

It is argued in Tokyo that issuance could rise further. Large redemptions of government debt in June and July are also likely to increase domestic interest in the Euroyen market.

Also, the recent stabilisation of the yen against the dollar, after a long period of appreciation could increase the attractions of issuing in the Japanese currency for borrowers.

An official at Nomura Securities, the largest of the Japanese brokers, said that it was "not easy" initially to convince Japanese to invest in Italy instead of Tokyo Electric Power. "But many show interest once you get to explain."

World Bank doubts India can meet target for cutting deficit

By Mark Nicholson in New Delhi

The World Bank has questioned the Indian government's ability to achieve its target of cutting this year's fiscal deficit to 5.5 per cent of GDP, saying the goal may be based on "over-optimistic" government assumptions.

But it warned that failure to achieve sustained cuts in the fiscal deficit would hurt real interest rates, investment levels and financial sector liberalisation while placing India "on a lower growth trajectory".

The warning comes in a Bank memorandum which will be submitted to India's official donors this month. It is a sharp and authoritative statement of concern that the government should not jeopardise its macroeconomic management targets in the pressure of an election year.

While noting that India last year achieved the highest economic growth rates since reforms began in 1991, at 5.3 per cent, the Bank said that central government fiscal imbalances remain a "major obstacle to higher growth" and that fiscal weakening threatened to "complicate and ultimately undermine" the country's balance of payments position.

The report also notes that India failed to meet its fiscal deficit target of 6 per cent of GDP for 1994-95 by 0.7 percentage points, saying that higher than budgeted tax receipts were undermined by lower than budgeted cuts in subsidies, higher loans to state governments and unplanned rises in state grants and other expenditure.

It adds that "although possible", achieving the 1995-96 fiscal deficit target of 5.5 per cent will be "very difficult".

The Bank says that "the most important issue in current economic management in India is improving public savings appreciably and reducing the fiscal deficit", saying that public savings – excess of central and state revenues over current expenditure and after receipts from public enterprise profits – is "much worse and has been deteriorating", from 3 per cent of GDP in the 1980s to zero today.

The Bank argues that India should act further to contain food and fertiliser subsidies, raise oil prices, continue improving tax revenue by better collection and administration, pursue "more aggressive privatisation" and cut losses incurred by state governments, whose tax fiscal management the Bank also criticises.

However, the memorandum says that the 1995-96 budget of Mr Manmohan Singh, India's finance minister, "meets only very partially the major challenge of fiscal consolidation" and that assumptions underlying the budget may be "over-optimistic".

These, the Bank says, are the assumption that tighter monetary policies since December would not significantly affect growth and resulting tax revenues; that India's Pay Commission would not increase pay expenditures for the year; that the government can resist state pressure for increased borrowings in an election year; and that sales and thus revenues from public sector disinvestments can be accelerated, also notwithstanding political pressures before elections, due next spring.

The Bank says that India must reduce its targeted fiscal deficit of 5.5 per cent of GDP by a further 1.5-2.5 per cent of GDP to attain government goals of inflation rates within a range of 5-6 per cent – wholesale price inflation stands at 8.7 per cent – and raise growth to 6.5 per cent.

While India's long-term real interest rates stand at 5 per cent and growth below 5-6 per cent, the Bank says the Indian government will be unable to accrue a surplus sufficient to stabilise its domestic debt. It says interest payments have risen as a percentage of government revenues from 50 per cent in 1990-91 to 70 per cent in 1995-96.

"Unless this situation is reversed, the probability of the government eventually collecting taxes just to service its debt is more than marginal," says the Bank.

RUGBY WORLD CUP

England wonder where they went wrong after All Black assault

New Zealand 45, England 29

Rugby has seen the like before, but not in this code. The memory summoned up by this formidable New Zealand team is that of rugby league's 1982 Australians, who fell on England with the devastating effect of the Vikings a millennium before.

But where that team found English league as unready as Ethelred, the England union combination demolished yesterday by the All Blacks was a very different matter. Now, in the moment of their devastating demise, is the moment to point out that this is probably the best team in English history. But they were simply swept away in Cape Town – and the elation sound heard across South Africa was that of the host nation collectively giving vent to the expletives associated with realising that a juggernaut is quickly bearing down upon you.

England did not play badly. Their forwards did what was expected of them – winning good line-out ball and taking the rucks and mauls by a two-to-one margin. Guscott and the Underwood brothers saw more ball than in some entire home seasons. Any vegetable comparison would be utterly unjust.

But it was all rather irrelevant. New Zealand showed that what matters with possession is not how much you get, but what use you make of it. Little matter that they also conceded 16 penalties while winning five. Every time they had the ball they looked like scoring.

There is something peculiarly inapposite about the kiwi as their national symbol. Flightless, short-sighted and uncomfortable in daylight, the kiwi is everything this team is not. They thrived in an afternoon of such crystalline clarity that it was hard to believe it was the same planet, let alone the same country, as deluged Durban less than 24 hours before. The ability to spot a gap and attack it at pace leaves no doubt about their sight and certainly at times gives the impression that they are flying.

And they have Lomu. *"Apres le deluge, moi"*, as he almost certainly wouldn't say. Even at Durban he would have been dangerous. In the perfect conditions in Cape Town, given time and space by New Zealand's determination to give him the ball as early and as often as possible, he was simply unstoppable.

In the second minute he received his first pass, which forced him to double back and stoop to gather – circumstances placing the ordinary player at an almost impossible disadvantage. He picked up, shrugged off Tony Underwood, ploughed through a determined challenge by Carling which nearly brought him down and even as he regained his balance had the power to drive through Catt. None of the England defenders did anything very wrong, but they were five points down already.

Worse was to come three minutes later as Little burst Guscott's challenge deep in New Zealand territory and sliced through, exchanging passes with Osborne before the magnificent Kronfeld, in the right place as ever, appeared in support to score. England, 12 points down, were finished almost before they had touched the ball.

Even before Number 8 Zinzan Brooke dropped a 40-yard goal, it was hard to escape the feeling that the All Blacks could do no wrong. There was a further try for Lomu before half-time and his hat-trick immediately after. When scrum-half Bachop started and finished a lethal 50-yard counter-punch 10 minutes after the interval, talk of 60 points hardly seemed exaggerated.

England, a team of Fabian philosophy, were in an impossible quandary. At 30 points down you have to try something, but to open up is court a real massacre. To their credit they struck back in the final quarter, too late to matter but with enough conviction to restore shredded pride.

Two tries each for Rory Underwood – who moved ahead of David Campese at the top of the all-time world cup list – and for Carling restored respectability to the scoreline.

But the relaxing New Zealanders still contrived a fourth try for Lomu and a drop goal for Mehrtens – struck on the apparent principle that making scores for Lomu, loitering again on the left, had become boringly easy and three points represented the more interesting challenge.

Huw Richards

New Zealand flanker Josh Kronfeld runs into an English tackle yesterday. He scored one of the six All Black tries. AP

English dream fades away in Woodford Green

It was an unusual sight in an English rugby club: an entire crowd cheering France. But for rugby aficionados at Woodford Green, Essex, on Saturday, it was all part of the great dream, an England-France final in the rugby world cup.

In Woodford's stunning new clubhouse in Epping Forest the rugby men of Essex cheered Thierry Lacroix's every kick. The roar "penalty try" went up as scrums collapsed in the final French onslaught on South Africa's line.

But France failed to get that final vital score and part of England's dream had ended. What was worse, yesterday afternoon the nightmare began.

Whatever England supporters had expected it was not being 12-nil down against New Zealand after only six minutes. As the match unfolded, anxiety turned to numb disbelief. At 25-0 down the queues grew at the bar and demand soared for a plate of John Clarke's chili con carne to anaesthetise the pain.

Entering into the spirit of the occasion Sandy Fraser, the club's Scottish chairman, had arrived in an All Black shirt and black face-paint. No crumbs of comfort for English supporters from the Scots.

Across the road from the rugby club, the cricket match on the green – coincidentally between Woodford Green rugby club's cricket team, the Woodcutters, and Woodford Green CC – was suspended so that the players could all watch the game in a specially-installed television in the bar, a scene no doubt repeated all over England.

Only one man sat outside in the sunshine not much bothered about the result of the game, Alva Malcolm, the Sunday XI's West Indian captain. Perhaps he knew something the England supporters did not. The final scoreline of 45-29 flattered England and all but the most one-eyed supporter knew it.

At the end of the afternoon not even England's late flurry of scoring was any consolation. "Never mind," I ventured, "England will beat France in the play-offs."

To which the reply was: "Oh no, don't say we have to watch England play *again*."

Jill James

Cruel end for brave French

S Africa 19, France 15

The last time South Africa saw relief like this was Mafeking. Two mighty roars in the space of 60 seconds from the vast, soaked King's Park crowd in Durban signalled that South Africa had made it to the final, just, writes Huw Richards.

The first came as the Springboks engulfed French centre Thierry Lacroix yards from the line, and referee Derek Bevan signalled a South African put-in at the scrum, ending several minutes of intense French pressure.

South Africa won the scrum and outside-half Joel Stransky miscued his clearance. But as it went to touch, Bevan whistled no-side, triggering off the second eruption. South Africa just about deserved it, but it was desperately close.

So much nearly went wrong for them. The first doubt was whether the game would even be played as allegedly rain-free Durban was lashed by a deluge of the sustained intensity normally reserved for Noah or the Saturday of the Lord's Test.

The kick-off was put back 90 minutes, allowing black, broom-wielding female ground staff to stage one of the best displays of co-ordinated teamwork seen in this competition.

Even so there was standing water as the match started, and more fell in intense bursts as it went on. Springbok number 8 Mark Andrews, who plays water polo, may have felt at home, but it is unlikely that any of the other participants did. The raw commitment and courage demanded of players, and the magnificence of their response, was reflected in the sight of referee Bevan and his two touch-judges applauding both teams off.

In the conditions, and with so much at stake, it might very easily have degenerated into a farce, a brawl, or both. That it did neither reflects immense credit on all 30 players and sensitive refereeing.

Nothing became France's contribution to the 1995 world cup like their losing of it. Coach Pierre Berbizier was cool, diplomatic and dignified in defeat – refusing the opportunities offered to complain about the conditions or the referee. But for all his grace in adversity, how France miss him as a player. Half-decent half-backs might have made their world cup very different.

France were always playing catch-up after a powerful Springbok start with Andrews winning line-out ball, scrum-half van der Westhuizen moving like an electric eel and Ruben Kruger consistently breaking the French gain line. Kruger's 25th-minute try gave them the 10-point lead they lived off for the rest of the game. So much for theories that the French fold in adversity. Two penalties by Lacroix cut the interval deficit to four points. But they were unable to break a South African defence in which full-back André Joubert, playing with a broken bone in his hand, was immense. Four points was as close as they got as Lacroix and Stransky exchanged penalties. A cruel result, but fair. See Observer

Tour de force by the G7 debutant

By Guy de Jonquières

Few events offer a better opportunity than G7 summits for government leaders to acquire overnight reputations as world statesmen. By general consent, the star turn at this year's gathering of the leaders of the Group of Seven industrialised nations in Halifax has been Mr Jacques Chirac, the newly elected president of France.

Mr Chirac stole the show from the outset. At the opening dinner on Thursday evening, he prevailed on fellow leaders to make the worsening crisis in Bosnia the main topic of conversation and urged on them the need to dispatch immediately a United Nations rapid reaction force.

He stamped his mark equally firmly on the economic policy debate, persuading other leaders to sponsor a meeting oo joh creation in France early next year and inserting into the final communiqué stronger calls for action on unemployment and aid for the poorest countries, particularly in sub-Saharan Africa.

Mr Chirac failed to win support for stronger international action to stabilise exchange rates. But he managed, nonetheless, to coin the summit's most memorable phrase by describing currency speculation as the "Aids" of the global economy.

The French president's *tour de force* was the more remarkable because he arrived here amid a storm of international criticism over France's plan to resume nuclear testing – an issue on which he remained immovable throughout the proceedings.

His impact in Halifax was due partly to the fact that he is a fresh face and – unlike many of his G7 colleagues – enjoys solid popularity at home and the backing of a new electoral mandate. However, he also deployed to good effect his personal charm and diplomatic skill.

US officials praised Mr Chirac's performance, even though he unashamedly upstaged President Bill Clinton by visiting Washington before the summit and securing the backing of Republican leaders in Congress for the rapid reaction force.

Indeed, Mr Clinton invoked Mr Chirac's judgment on the urgency of intervention in the Bosnia crisis in his efforts to persuade congressional leaders to arrange an immediate vote on the financing of the force.

Any resentment felt by Mr Jean Chrétien, Canada's prime minister, at having his chairman's role overshadowed was soothed by Mr Chirac's assurances that he would not emulate President Charles de Gaulle by involving himself in the vexed issue of Quebec separatism.

In contrast to the olympian pomp favoured by President de Gaulle, and most other occupants of the Elysée Palace, Mr Chirac displayed a down-to-earth, almost chummy, approach.

He compared the modest Halifax venue favourably with the palatial settings of earlier G7 summits and criticised the final communiqué for being too lengthy and detailed.

Mr Chirac's well judged performance can only have helped his political standing at home. It also enabled him to lay the foundations for the agenda for next year's G7 meeting, which he will host in Lyons. He has already made clear that he sees unemployment and aid as top priorities, and may propose some specific measures for dealing with currency speculation.

How much he, or the other leaders, will be able to deliver on any of these issues remains an open question. However, Mr Chirac appeared realistic about the prospects, chiding earlier G7 meetings for raising expectations too high and overestimating the importance of their own decisions.

Equally uncertain is whether he will be riding as high politically in a year's time as he has done in the past few days. G7 summits may promote leaders to star status. But as several of those at Halifax would testify, events can also leave them looking cruelly exposed when their political fortunes are in decline.

Chirac: star turn

Summit move to reform global financial bodies

By Peter Norman, Economics Editor

It was always clear that the crises in Bosnia and Chechnya would overshadow this year's Group of Seven economic summit in Canada. But the leaders of the US, Japan, Germany, France, Britain, Italy and Canada nonetheless reached a potentially significant agreement on strengthening the instruments of co-operation in the global economy.

Quite bow much thought had gone into this effort became clear only as the economic part of the summit talks drew to a close. The leaders not only issued a ten and a half page communiqué covering their talks on the global economy but a 15-page background document detailing their thinking on bow to improve the workings of international financial institutions such as the International Monetary Fund, World Bank and various regional development banks.

Mr Larry Summers, the undersecretary at the US Treasury for international economics, said the conclusions on the financial institutions were important "concrete accomplishments" that made Halifax "one of the most successful summits in recent years". Leaving aside the hype that infects even the most sober official at times of summitry and the fact that the G7 accomplishments are proposals that still require support from the international community, they are potentially far-reaching.

The reforms singled out by Mr Summers included:

- The much-touted programme to prevent or deal with future Mexico-style crises, including a recommendation to double the IMF's General Arrangements to Borrow from $28bn.
- Improved regulatory co-operation "to develop and enhance concrete standards and safeguards" in the global financial system to avoid problems such as the collapse of Barings Bank.
- What Mr Summers called a "blueprint for reform" of multilateral development banks. The G7 is encouraging the banks to learn from past mistakes and pay more attention to investment in people and popular participation in projects and put greater emphasis on environmental protection.

The G7 wants the World Bank and regional banks to decentralise operations wherever possible. Using language considerably tougher than the official communiqué, the background paper says development banks should seriously consider "sharply reducing" lending tu countries that do not demonstrate a clear commitment to puverty reduction.

It recommends in some cases assessing this commitment by comparing the share of government spending for basic social services to the share directed to non-productive areas "such as military spending".

Surveillance has a key role to play in the process of seeking to avoid another Mexico crisis. The G7 is recommending greater use of information to strengthen the process of peer pressure among nations.

The main reforms:
- **A programme of action for Mexico-style financial crises**
- **Better regulatory co-operation to avert Barings-type collapses**
- **More attention to people and the environment by development banks**

The G7 economic communique said the IMF should establish benchmarks for the timely publicatiou of key economic and financial data; a procedure for the regular public identification of countries complying with these benchmarks and full and timely reporting by IMF member countries of standard sets of data.

The G7 background paper gives considerable additional detail on how the IMF should improve its early warning system so that financial markets cannot again be caught unaware by a country's problems. Among its recommendations, it said the IMF should devote:

- Greater resources and attention to countries "of global significance". These would be the 30 or so industrialised or developing nations of sufficient importance for adverse developments to cause global financial crises.
- More attention to banking and financial sector developments and, "in particular, the pattern of capital flows and maturity".

The G7 finance ministers, who were responsible for the document, admitted that there could be problems implementing this policy. "Any surveillance process faces a tension between the desire to function as a co-operative process and the frequent need to deliver a sharp, unambiguous policy message to national authorities," they said.

However, the G7 suggested that the IMF managing director should be encouraged to initiate policy dialogue with the national authorities of problem countries. "Where appropriate, governments should be prepared to take on the role, collectively or individually, of passing a strong message on the need for policy actions to the national authorities of these countries."

Mr Summers said the G7 was calling on the IMF to do more than simply improve its surveillance procedures. It was seeking "a change in culture at the IMF, in the markets, and in developing countries, towards an emphasis on transparency as the best way of ensuring that the data is all there and markets can respond to any problem very quickly."

He said he was looking forward to when "all major countries that have substantial contact with international capital markets" produced economic statistics similar to those now produced by the iodustrialised countries. That would mean reporting a central bank balance sheet at least on a monthly basis "and perhaps significantly more frequently". It would also mean up-to-date information on a monthly or more frequent basis on government receipts and government outlays, Mr Summers said.

Mr Robert Rubin, the US Treasury secretary, said that the Mexican crisis would not have built up last year if such transparency had existed for international financial markets. In future, once the IMF is setting standards of disclosure, it would be very difficult for a country to raise funds in capital markets without meeting disclosure standards, be added.

Leaders zero in on crime and nuclear safety

By Robert Chote and Peter Norman

The Group of Seven has agreed, with Russia, to step up co-operation in the fight against international crime and on minimising the dangers posed by the use of civil nuclear power.

Although the crises in Bosnia and Chechnya overshadowed the political discussions among the leaders, their final statement contained no initiatives. They repeated their call for all parties in the Bosnian conflict to cease military operations and open political talks.

The G7 heads of government agreed to a Russian proposal that they convene a special summit next year to discuss nuclear safety.

They also agreed to set up a special task force to find ways of tackling international crime more effectively, having earlier set up a similar group on terrorism.

For this political section of the summit, the G7 heads became the G8 as they were joined by Russia's President Boris Yeltsin.

The leaders expressed concern at the continuing conflict and loss of life in Chechnya and called for a political solution to the crisis. President Bill Clinton later warned Mr Yeltsin in a tough exchange that the cycle of violence had to be broken in the interests of democracy in Russia.

Delivering the final statement as chairman of the meeting, Mr Jean Chrétien, the Canadian prime minister, said an experts' group bad been formed to identify "gaps" in co-operation against international crime. The task force will report back to next year's summit in Lyons.

The statement warned that transnational criminal organisations represented a growing threat to the security of the G7 nations. They undermined financial systems, bred corruption and weakened emerging democracies and other developiog countries.

Co-operation was needed to ensure that criminals did not escape justice by crossing borders. The G7 also promised to reinforce crime-fighting institutions and to exchange more useful information.

The threat from crime and terrorism was also a spur to the announcement of the nuclear safety summit, which is due to be held in Moscow next February or March. Mr Clinton said that it was important that small-scale nuclear weapons were not added to the already impressive arsenals of terrorist groups.

"The G7 must work together far more energetically and comprehensively to counter the growing dangers posed by terrorists, international criminals, nuclear smugglers and drug traffickers," Mr Clinton said.

Smuggling will be one of the topics at the nuclear safety summit, which was proposed by Mr Yeltsin and accepted enthusiastically by the G7 leaders. The conference will also discuss the disposal of nuclear waste, as well as other safety issues.

Mr Helmut Kohl, the German chancellor, said it was important that Ukraine attend the nuclear summit.

On Friday the G7 had congratulated Ukraine's President Leonid Kuchma on his decision to close the Chernobyl power plant by the end of the decade and welcomed the decision by some countries to provide money for short-term safety improvements and initial decommissioning work.

"In order to assist the closure of Chernobyl, we will continue our efforts to mobilise international support for appropriate energy production, energy efficiency and nuclear safety projects. Any assistance for replacement power for Chernobyl will be based on sound cost-effective and environmental criteria," the G7 said.

Ceasefire in Ireland Deadlock may result in slide back to violence, says Gerry Adams

Governments play down IRA risk

By John Murray Brown in Dublin

The governments of Britain and the Republic of Ireland last night played down the threat of a Sinn Féin boycott of peace talks on the future of Northern Ireland. They did so even though Sinn Féin warned of a resumption of violence if the British government continued to insist that the Irish Republican Army make a gesture to take its weapons out of commission.

The nationalist Sinn Féin party is the political wing of the IRA. Ceasefires were announced by the IRA and the largest anti-nationalist paramilitary groups in August and September last year.

Mr Gerry Adams, Sinn Féin president, warned in South Africa on Saturday that hostilities might resume if the British government failed to invite Sinn Féin to talks with the main constitutional parties in Northern Ireland. Mr Adams issued the warning during a visit on which he is a guest of the African National Congress. He is due to meet President Nelson Mandela today.

"An obstacle is being placed in the road to a settlement," Mr Adams said in an interview broadcast by the BBC in Northern Ireland. "There is always a danger, unless we deal with the root causes of conflict, that the danger of slipping back into conflict remains." He said his party was still keen to meet British ministers, but was unwilling to become "stuck" in futile talks.

British officials last night described Sinn Féin's threats to break off exploratory talks as "political brinkmanship, and part and parcel of the negotiating process".

Officials in the Republic of Ireland were quick to play down any sense of crisis. They stressed that the IRA was unlikely to return easily to hostilities because it had invested much in the peace process and had won the plaudits of the US and Irish governments. Sinn Féin is under growing pressure from Dublin and the US administration to make a move on the arms issue. Mr Adams insists that British demands on decommissioning are an attempt to secure "an IRA surrender," something which had never been sought in the secret negotiations with Sinn Fein before last year's ceasefire.

"As long as the exploratory talks continue we're not getting desperately worried about it," said an official of the Republic's government. "This is not the apocalyptic development some are suggesting," said a British official from the Northern Ireland Office.

Mr Dick Spring, foreign minister in the Republic of Ireland, yesterday acknowledged that the IRA must make some movement on arms before unionists will come to the table. However he said a formula should be found "to allow talks to take place and progress to be made on the substantial issue of decommissioning". In the past Mr Spring has expressed doubts over the "usefulness" of British demands on weapons.

Leadership crisis in the Conservative party

Support premier or lose election, MPs are told

By Kevin Brown, Political Correspondent

Mr Michael Portillo, the leading rightwing candidate for the Conservative leadership, yesterday warned Tory MPs to unite behind Mr John Major or risk losing the next general election.

In a clear indication of the rightwing pressures on the prime minister, Mr Portillo, employment secretary, also urged the government to spend its remaining two years in office helping homeowners and other traditional Tory supporters. "We are talking about people who are home owners and families, people who make provision for the future, people who take responsibility for themselves and fulfil their duties in their communities."

Much recent rightwing criticism of Mr Major has focused on his alleged abandonment of traditional Conservative values and alienation of the party's natural supporters.

But Mr Portillo joined other senior Conservatives in urging an end to the fevered speculation about Mr Major's leadership which began after the prime minister's confrontation with rightwing backbenchers last Tuesday. "The party has certainly got pretty fevered and that has got to end," Mr Portillo told BBC radio. "This party has been elected to govern for a five-year period, and unless it gets itself together and pulls its socks up it will not be able to win the next election. We must get behind the leader of our party and we must start talking about the policies that we want to put to the electorate."

> *Quit No 10 now, and do Britain a favour*
>
> AFTER another week of humiliation, the time has come for John Major to face the truth: He's finished.
>
> Forthright advice yesterday for the prime minister from the News of the World, the top-selling newspaper in Britain. The paper, part of Mr Rupert Murdoch's empire, supported Mr Major at the last general election in 1992

As Mr Major relaxed at home after the G7 meeting in Halifax, Nova Scotia, aides dismissed reports that he was considering how long he could survive in the face of continued rightwing sniping. They pointed to his insistence shortly before leaving Halifax on the UK's place at the heart of Europe as evidence of his determination to fight on against rightwing demands for disengagement from the European Union.

Amid indications that dissident rightwingers have enough support to force a leadership election in the autumn, Mr Major was also strongly defended by Lord Parkinson, the former party chairman, and Lord Archer, former deputy chairman.

The expressions of support for the prime minister followed growing fears on the right of the party that a leadership contest would probably be won by Mr Michael Heseltine, the pro-EU trade and industry secretary.

Lord Parkinson told the Sunday Express: "If the cabinet collectively announced that John Major had their total support, and they would not oppose him or be candidates, that, I believe, would put an end to the present turbulence."

Lord Archer, a friend of the prime minister, said: "We don't need a change at the top, we need unity."

Medium-sized companies

Non-executive directors 'give excellent value'

By William Lewis in London

Non-executive directors of medium-sized companies give shareholders good value for money – although some non-executives complain that they are sometimes presented at board meetings with a "house decision" made at a "knock out" meeting the day before.

These are two of the findings of a report by the Top Pay Research Group, a remuneration consultancy, on behalf of Russell Reynolds, the headhunter. In March researchers contacted 307 non-executive directors, including 118 part-time chairmen, who sit on the boards of companies included in the FT-SE Mid 250 Index, to ask them about corporate governance issues.

The survey found that part-time chairmen of companies with turnovers ranging from £31m ($48.7m) to £1bn work between 50 to 81 days a year for average basic fees ranging from £26,000 to £70,000. This represents a daily rate range of £518 to £864.

"These daily rates offer outstanding value for money and work out between 30 per cent to 50 per cent of the daily rate charged by a senior management consultant, who shares none of the part-time chairman's legal liabilities," said Mr David Shellard, managing director of Russell Reynolds.

The report says that non-executive directors on the boards of similarly sized companies now spend an average of 12 days at meetings and 10 days on preparatory and other work. In return they receive fees ranging from £16,000 to £22,000, representing a daily rate range of £727 to £846.

The report concludes that the pay of non-executives of companies in "industrial and commercial middle England" has "not risen commensurately with the increased time commitment necessary" to comply with the recommendations of the first Cadbury committee on corporate governance.

The second Cadbury committee is due to convene later in the summer and is likely to study closely the role of non-executives.

UK NEWS DIGEST

Jobs growth is slowing, says agency

The rate of increase in UK permanent employment appears to be slowing, says the latest national survey of job prospects from the independent Manpower agency. The net increase in employment between the third quarters of 1994 and 1995 will be only 1 per cent compared with the 6 per cent improvement recorded between the same quarters of last year and 1993, it predicts. The survey, based on responses from nearly 2,100 employers, shows that while 26 per cent forecast job increases in the three months to the end of September, 10 per cent predict job losses.

"Many companies have significantly increased their workforce over the last two to three years, but these increases have been masked in the overall employment figures by the rationalisation and downsizing that has taken place elsewhere", said Ms Lilian Bennett, Manpower's chairman. "The pace of rationalisation now seems to be slowing but the rate of increase for permanent employment may be slowing faster".

Robert Taylor, Employment Editor

More workers forced into part-time jobs, say unions

The number of people taking part-time jobs in the UK because they cannot find full-time work has risen by 62 per cent since 1984, says an analysis of government statistics from the Trades Union Congress. It estimates that involuntary part-time workers total 850,000, or 13.8 per cent of all part-time employees and self-employed people. The TUC estimates that part-timers are nearly three times as likely as full-timers to be employed on a temporary contract. *Robert Taylor*

Role of exports in growth is expected to decline

Domestic spending will take over from exports as the engine for growth in 1996-97, say forecasts from Cambridge Econometrics, the private research body. Consumer spending is predicted to rise strongly in response to assumed cuts in direct taxation, while slower growth in world markets is expected to cut the contribution of exports to growth. The effects of this switch in growth could be pronounced. Industries dependent on consumer spending, such as food, textiles, retailing and hotels and catering, have seen below-average growth in 1994-95. They are expected to grow faster in 1996-97.

The forecasts, based on Cambridge Econometrics' 49-sector model of the UK economy, predict growth slowing to just under 3 per cent this year, with slower consumer spending and a smaller contribution from net trade offsetting strong growth in investment, which is expected to come largely from the corporate sector. Recent data show that growth in manufacturing investment is accelerating, and was nearly 6 per cent higher in the first quarter than a year earlier. Investment by financial companies is growing even faster than in manufacturing. *Philip Gawith, Economics Staff*

Number of managers with degrees increases slowly

Fewer than one in five of Britain's managers held a degree or an equivalent qualification last year, although this represents a 12 per cent improvement on the number who did so in 1985. This is the main conclusion of a study for the Department of Employment by the independent Institute for Employment Studies. Only 7.7 per cent of managers in hotels and retail distribution had a degree or equivalent last year, 15.7 per cent of managers in construction and 17.9 per cent in transport and communications. Just over 66 per cent of managers in financial services had no degree or equivalent qualification. *Robert Taylor*

Retail spending with cards is up 19% on year

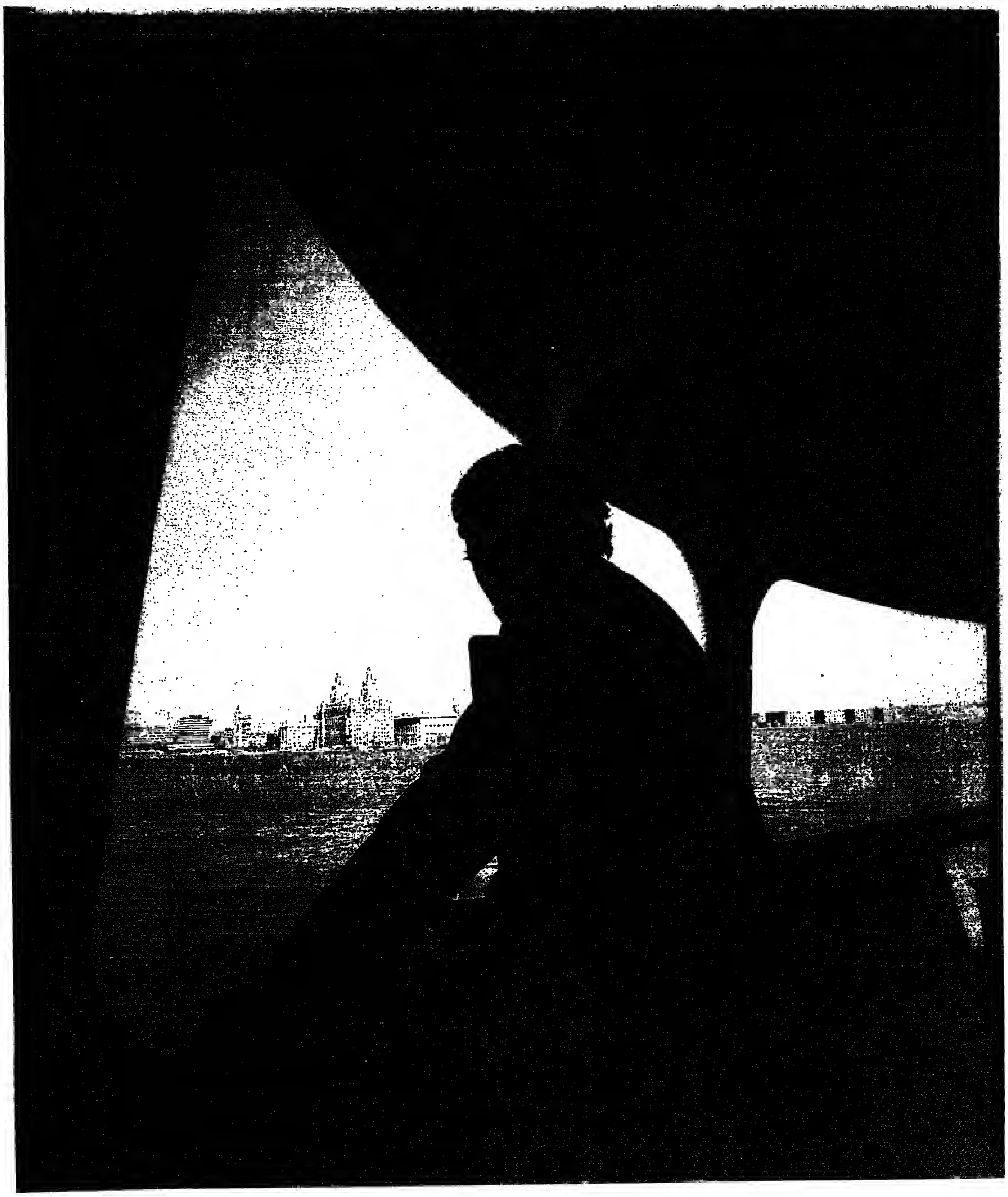
Spending with credit and debit cards rose to £6.02bn ($9.45bn) in May, 19 per cent higher than a year before, according to figures from the Credit Card Research Group. But the value of retail sales grew only 3.8 per cent in the year to May, so the surge in credit and debit spending shows that tha percentage of spending conducted with cards continues to grow. Spending in the food and drink area rose 20 per cent to £1.6bn even though some retailers oppose plastic cards. *Philip Gawith*

Judges reject order to destroy blue cheese

A Scottish farmer who produces Lanark Blue cheese won a court case over attempts by his local council to have batches of the cheese destroyed because of alleged contamination with the bacteria listeria. Three judges at the court of session in Edinburgh upheld an earlier court judgment that Mr Humphrey Errington had been denied natural justice when the magistrate ordering the destruction of the cheese would not allow his lawyers to cross-examine expert witnesses. The judges rejected an appeal by Clydesdale district council which had asked the magistrate to order the destruction of the cheese. Mr Errington says the cheese is safe and that 63,000 portions containing the particular strain of listeria have been sold with no ill effects.

James Buxton, Edinburgh

Farmer attacks bank: A farmer was arrested after spraying the front of a branch of National Westminster Bank in Newcastle upon Tyne with manure. David Cannon, who towed a muck-spreader behind a tractor through the streets of the north-east England city, was charged with criminal damage. No reason was given for the onslaught, but four years ago he mounted a similar attack against a tax office.



THIS WEEK

Italian law takes its time

DATELINE

Rome: The Contrada case is an extreme example of the problems involved, writes Robert Graham

How long should a man be held on remand? The issue has once again come to the fore in Italy as a result of the collapse in a Palermo court last week of Bruno Contrada, former head of anti-mafia intelligence. Contrada fainted just after the beginning of the 94th session of his trial. He has been held in prison for 30 months on charges of alleged links with the mafia.

The incident provoked a chorus of protest in parliament with calls – most notably from the right-wing Forza Italia movement of former premier Silvio Berlusconi – for Contrada's immediate release. Other deputies talked of the need to provide better guarantees to protect against abuses of human rights given the fact that 46 per cent of Italy's prison population consists of persons held under preventive detention laws.

The Contrada case is an extreme, though illustrative, example of the problems involved. Contrada had enjoyed a brilliant police career dealing with organised crime in Sicily. Prior to his arrest on December 24 1992, he was No 3 in the intelligence services, with the highly sensitive task of gathering information on Cosa Nostra, the umbrella organisation of the Sicilian mafia.

He was arrested as a result of information provided by *pentiti* – mafia members who have decided to collaborate with justice under witness protection programmes. A total of nine *pentiti* have now given evidence that in essence claims Contrada was exploiting his position to protect and benefit Cosa Nostra bosses. A month after Contrada's arrest Toto Riina, the brutal and undisputed head of Cosa Nostra, was caught in Palermo. He had been on the run since 1969, most of the time, it transpired, in the Sicilian capital.

The *pentiti* who have offered evidence in this case comprise most of the key figures in the witness protection programme. They include Tomasso Buscetta, whose evidence has already been accepted in a court and who first fingered Contrada in 1984.

The thrust of the prosecution's case is that Contrada had, through his work, become a double agent who sold out to the mafia. In the murky world in which Contrada moved the contention is extremely hard to prove, and he has consistently protested his innocence.

He has never denied he maintained contacts with the mafia. On the contrary, he asserts that his very job required him to penetrate the higher echelons of Cosa Nostra. The links were thus legitimate. He has produced some 150 witnesses and paraded a string of character references, including one from the former head of the national police.

Initially he was held in a Rome military prison; but just before his trial opened in Palermo in April 1994 he was moved to the Sicilian capital. He was considered such an important figure – in need of exceptional protection – that a moth-balled military prison was opened specially for him, where he remains the sole prisoner. His supporters say he is being unjustly held in isolation. But the courts, in rejecting appeals, have accepted he is not strictly in isolation; rather, he happens to be alone in the prison.

On seven separate occasions courts have turned down requests for Contrada's release. The matter has been considered twice by a civil liberties tribunal and three times by an appeals court. In each instance the courts have accepted that the accusations against Contrada are too grave and the risk of tampering with evidence too serious for him to be at large.

However, it would be naive to assume that the Palermo judiciary, which initiated the case against Contrada, is a disinterested party. His conviction would prove for the first time in court that the mafia was capable of penetrating the highest levels of state. If, on the other hand, the evidence of *pentiti* is judged insufficient to pin a prosecution, its use in other trials will be undermined. The *pentiti* themselves – the single most important weapon to emerge in the past five years in the fight against the mafia – may then be discouraged.

The same *pentiti* testifying against Contrada are central to the case against Giulio Andreotti, seven times Christian Democrat prime minister. Andreotti, who is accused of providing political protection for Cosa Nostra, is due to go on trial in late September in Palermo. The former premier protests his innocence, and over recent months has cast doubt on the credibility of the *pentiti*.

Contrada supporters say the evidence is insufficient, and claim the court is dragging out the trial to ensure it is not obliged to dismiss the case before the Andreotti trial opens. A verdict in favour of Contrada would undoubtedly favour Andreotti's cause.

The case against Contrada has certainly been dragged out. But this probably reflects the way the prosecution can continue to introduce fresh evidence which in turn the defence can match. As one newspaper commentator wrote: "It's not that the Contrada trial is too long: all Italian trials are too long."

FT GUIDE TO
THE JAPANESE STOCK MARKET

Why are Japanese share prices falling?
Japanese institutional investors, which own nearly three quarters of the market, are selling. Some are technically insolvent and many are producing lower returns on their portfolios than promised to their clients. So they are cutting losses and putting money into bonds, which give a low but less risky income. The most recent manifestation of this decline, last week, was triggered by poorer than expected annual results from Japan's top companies, plus the government's announcement that it will do less than many hoped to prop up the ailing banks, a big factor in Japan's general economic weakness.

How far have prices fallen?
Last Thursday, Japanese shares touched a 34-month low. By the end of the week they had fallen a quarter in local currency terms from the level at the end of last year, or a heart-stopping 62 per cent from the end-of-1989 peak. The performance so far this year looks a bit less bad when measured in dollars – down 11.4 per cent – because of the yen's rise against the US currency. But even in dollar terms, Japan is the worst performing of the world's biggest markets so far this year, little better than Mexico.

Will it get worse?
Probably. The finance ministry says it will not, as in the past, use government money to prop up share prices. It seems ready, for the first time, to leave the market alone. At the same time, the government is under pressure from business lobbies to do more to help the banks, which would be great news for shares.

But do not hold your breath. Some experts think that the finance ministry might first let a bank or two go under, to alarm the electorate into dropping its aversion to using public money for bank bailouts. Japanese financial institutions are likely to go on selling while that uncertainty continues.

Even if shares did eventually perk up, is there not a risk that the yen will collapse, wiping out my profits?
Relax. Japanese institutions will continue to be in a mood to keep their money at home for a long time yet. So long as the current account surplus stays high, so will the yen. The Japanese currency has been on a rising trend – admittedly with some big humps along the way – for the past 25 years, and may even have further to go.

Are Japanese shares different, in some mysterious way, from shares in other main markets?
They look, by international standards, very expensive even after the latest fall. For example, the average share price represents 27 times this year's forecast pre-tax profits, which compares with a prospective p/e of 16 on the US market or 13 in the UK. Taken as a multiple of net forecast profits – which involves some guesswork because nobody knows how much Japanese companies will have to write off for bad investments this year – the p/e of the Tokyo market goes up to something like 75.

Some people conclude that Japan's high p/e's mean share prices must fall further, unless earnings rise. Another school holds that Japanese share prices will always be high, because the intricate web of cross-company shareholdings restricts the number of shares in circulation.

Japan has lots of share price indices. Are they all falling equally fast?
No. The indices for smaller companies are falling faster than the big stocks, because smaller company shares are harder to buy and sell. A small number of sales orders sends them into disproportionately sharp decline. The 25 per cent decline in the Nikkei 225, measuring the top 225 companies, is similar to that of the Topix, down 22.5 per cent. The Topix measures the market capitalisation of 1,240 companies, while the Nikkei 225 simply tracks prices. For smaller companies, the over-the-counter market index is down 32.7 per cent.

What does all this mean for the Japanese economy?
Japanese banks and industrial companies are uniquely reliant on the stock market because they hold large equity portfolios. Banks even count part of the unrealised gains on equity holdings as capital. If those gains shrink, so do banks' capital and their ability to write off the Y40,000bn (£295.5bn) worth of bad debts built up during the recession. This makes banks even less willing to lend, and delays spending and investment all round.

What are the implications for the world economy?
Japan's biggest investors have become all the more cautious, and thus less likely to spend money abroad. Fortunately, however, Japan's foreign spending has not dried up, if only because the high yen is forcing companies to make more industrial investments abroad – if you include spending on existing factories – than at home.

Should I invest in Japan?
Not yet, unless you like taking big risks. Many of the foreign investment funds specialising in Japan are neither buying nor selling at the moment. They hope the market might be near the bottom but are not sure whether the worst is over. A small number of investors, who had the good judgment to pull out of Japan early, are now starting to buy a few selected shares again, on the basis that things cannot get much worse.

How can I tell when to buy?
Look out for any sign of a government bailout for banks. Another pointer would be a cut in property transaction taxes, also being discussed in government circles. That would cheer up all the financial institutions, because much of their bad debts and investments is linked to property, the value of which has fallen almost as far as share prices in recent years.

William Dawkins in Tokyo

Bon Jovi: greater pretensions and prettier than Deep Purple

MUSIC

■ Biggest shock of the week comes half-way through Jimmy Somerville's *Dare to Love* (London), when his highly effective but occasionally cloying falsetto gives way to a perfectly pleasant tenor warble on the title track. Somerville suffers from the all-too-familiar syndrome of failing to match the energy of his performance with quality of song; when the two come together, as on "Heartbeat", the results are thrilling: but it happens all too rarely.

□ An interesting contrast between rockers old and new emerges this week with the release of Bon Jovi's *These Days* (Mercury) and the 25th anniversary re-release of Deep Purple's *Deep Purple in Rock* (EMI). Bon Jovi, of course, have much greater pretensions (and fans) than their ancestors, with their softer, more melodic material and pretty-boy image; but it is the abrasive, visceral sound of *In Rock* which continues to have the greater impact. Obligatory studio re-mixes and alternative versions do not add very much to what was a seminal album for head-bangers everywhere.

■ A spectacular all-star cast, including Cheryl Studer, Anne Sofie von Otter, Sylvia McNair and Bryn Terfel, join Claudio Abbado and the Berlin Philharmonic for a live recording of *Mahler's Eighth Symphony* (Deutsche Grammophon), the work the composer described as his "most important" creation. Predictably marvellous singing all round, and a freshness of sound which is too often missing from studio versions of this work.

□ Did Bach, that most serious of composers, have a sense of humour? The case for can be heard on the "Coffee" Cantata, thanks partly to his librettist, Picander. It is paired with the musical drama "Hercules at the Crossroad" in a new recording by Gustav Leonhardt and the Orchestra and Choir of the Age of Enlightenment on Philips.

■ Berthold Goldschmidt's *Beatrice Cenci* (Sony) was commissioned by the Arts Council for the Festival of Britain. Based on Shelley's play, it is a powerful, sweeping work given full justice here by Lothar Zagrosek and the Deutsches Symphony Orchestra, Berlin. Singers include Simon Estes and Della Jones.

Peter Aspden

PEOPLE

Iron lady at Laura Ashley's helm

Neil Buckley profiles Ann Iverson, newly appointed chief executive of the clothing and furnishing group

Ann Iverson does not like guns. Late last year, after the shooting in New York of a child carrying a toy gun, she swept all "realistic" looking guns from the shelves of Kay-Bee Toys, the US retailer of which she was chief executive. The 120 tons of plastic weapons were dumped into an incinerator, generating enough electricity to heat 48 homes for a month.

The move was typical of a retailer who, colleagues say, combines sensitivity and creativity with acute business sense. Those attributes will be vital in her next job, as chief executive of Laura Ashley, the clothing and furnishings group which took a classic English style to shoppers from Canada to Canberra, but which has lost its way in the 1990s after several years of losses or indifferent profits. It reported a £30.6m loss for the year to January 28, after £34m restructuring costs.

Iverson: promises to bring retail discipline and a feminine touch

Last week Iverson, 51, pledged to treat the brand with care, while maximising its potential to return operating margins from the current 2 per cent to the double-figure levels of the 1980s.

"What Laura Ashley represents is the mood and emotion, and countryside feeling that Laura put into it," Iverson says. "That passion and interpretation is something that has to stay alive and be a part of the brand... but it needs to be reviewed with delicate instruments."

Insiders welcomed the appointment of a woman and a highly experienced retailer – after two chief executives without retail backgrounds – to handle what is still seen as a very feminine brand.

Iverson is steeped in retailing. London analysts say that during her time as chief executive of the UK's Mothercare chain, she displayed a strong strategic brain, but appeared most at home not in meetings, but walking around stores demonstrating what she was doing.

Iverson worked part time in Bullock's department store in Los Angeles during her final school year. After marrying at 20, she gave up an education degree at Arizona University to take a full time job at Bullock's. She moved back to Arizona in 1966, and took jobs with three stores groups over 14 years. After stints with Harzfield's of Kansas City and T.H. Mandy in Virginia, in 1984 she was invited to join Bloomingdale's, the New York-based department store group, as operating vice president of two main branches.

At Bloomingdales, Iverson came to the attention of David Dworkin, chief executive of Bonwit Teller, another New York department store group. Dworkin recruited her as senior VP of stores, for what was to be a difficult period.

Bonwit Teller had been acquired by Australian company L.J. Hooker, which filed for chapter 11 bankruptcy after getting into problems servicing $2bn debts in 1989.

"Life got real tough," says Iverson. "It gave me experience of taking difficult decisions." When David Dworkin left for UK retailer Storehouse late in 1989, Iverson accepted the invitation to join him.

Storehouse established Iverson's reputation as a turnaround specialist. The group had over-expanded and lost focus in the 1980s, and Iverson contributed heavily to recoveries in its two divisions, first as stores director of BHS, which went from near-loss in 1990 to £40m profits in 1993.

As chief executive of Mothercare, she turned a £4m loss into £5m profit by 1993, re-focusing the chain on the mother-and-baby products and children's clothing markets, and developing a "fun" element for children, including talking trees and singing clocks.

In a year at Kay-Bee she has started to reposition the largest mall-based US toy retailer to compete better with Toys R Us, its superstore-based competitor.

Iverson says the same skills she displayed at Storehouse and Kay-Bee can be applied to Laura Ashley.

"My first strength is the ability to get in and suss out the real issues in order of magnitude. That comes from a lot of experience, from an ability to look at the problems in multi-dimensional ways. The second is being able to diagnose and prioritise, to be decisive."

Laura Ashley, she says, needs some "basic retail practices and disciplines". The brand strengths must be re-identified, then the "correct business model" put in place – to exploit the benefits of the company's vertically-integrated structure – and those elements used to push up gross margins.

Much is riding on Iverson's success. Analysts believe that unless Laura Ashley's performance improves, its future as an independent retailer is in doubt.

Jusco, the Japanese retail group, has had a 15 per cent stake and seat on the board since 1990. Sir Bernard Ashley, widower of the founder, was recently approached by US businesswoman Georgette Mosbacher to sell his remaining 35 per cent stake, although he said last week he had "no intention of disposing of or reducing my interest".

For Iverson, Laura Ashley provides another opportunity to work in fashion, her favourite branch of retailing. Visits to the US division will also allow time with her US-based son and daughter, her "greatest support and biggest fans" during a hectic career and four marriages and divorces, the last during her time at Storehouse.

"There is no question I had to sacrifice a personal life," says Iverson. "But now my children are grown up, I'm learning to enjoy my adult life."

NAMES IN THE NEWS

Mitsubishi spreads net to take first westerner on board

Jim Brumm, a quietly spoken lawyer from California, is about to become the first westerner to join the board of Mitsubishi Corporation, Japan's largest general trading company, writes William Dawkins in Tokyo.

His appointment is the latest manifestation of a strategy by Minoru Makihara, the group's president, to blow a little international fresh air into this bastion of the Japanese industrial establishment. Makihara is keen to get the best foreign executives from Mitsubishi's more than 100 overseas companies more closely involved with the head office in Tokyo.

Mitsubishi, the heart of the country's largest and most tightly knit keiretsu, or industrial family, has been slower to hire senior foreign executives than Sony, Japan's perennial management pace-setter, but is now seeking to catch up. There will be more foreign directorships, Makihara promised last week.

Brumm, 52, a graduate of California State University, and a fluent Japanese speaker, joined the legal and credit division of Mitsubishi's US arm, Mitsubishi International Corporation, in New York in 1977. Currently, he is executive vice president of MIC and will continue to work in New York after his directorship is confirmed at Mitsubishi's annual general meeting on June 29. Technically, he is Mitsubishi's second foreign director, after a Korean who is now retired.

Another factor in Brumm's appointment, apart from Mitsubishi's desire to make more use of foreign talent, is its need to beef up its legal skills, say officials. The group is signing an increasing number of international contracts, all with potentially tricky fine print.

Turbulence in Oslo as Kran quits

Turnover on the Oslo stock exchange is rising, and not in share transactions, writes Karen Fossli in Oslo. Six months after the tragic suicide of Erik Jarve, who had headed the exchange since 1977, the market remains in turmoil.

Since December, Oslo has been in a state of flux following a bizarre series of events which led to the dismissal of Jarve and his subsequent suicide. Last week Kjell Kran, who had been brought in as chairman to restore confidence, quit after a disagreement over the choice of Jarve's successor.

Kran, 57, managing director of Sparebanken Nor, Norway's largest savings bank, had only been in the job for four months. A senior figure in Norway's financial community, Kran took over from Elisabeth Wille who had come under fire for her handling of the so-called Jarve affair, among other things.

However, any hopes that Kran could restore calm to the exchange's turbulent affairs were blown apart by a row over Jarve's replacement. The board wanted Jarve's deputy – Kjell Froensdal – to get the job. Kran disagreed, and said as much in his letter of resignation. Hardly a ringing endorsement for the man who blew the whistle on his predecessor.

Renwick heads back to SA haunts

Sir Robin Renwick, Britain's ambassador to the US, is just about to change career, writes Jurek Martin in Washington. His new beat will be taking him back to his old haunts in South Africa, the place of his most conspicuously successful diplomatic tour of duty.

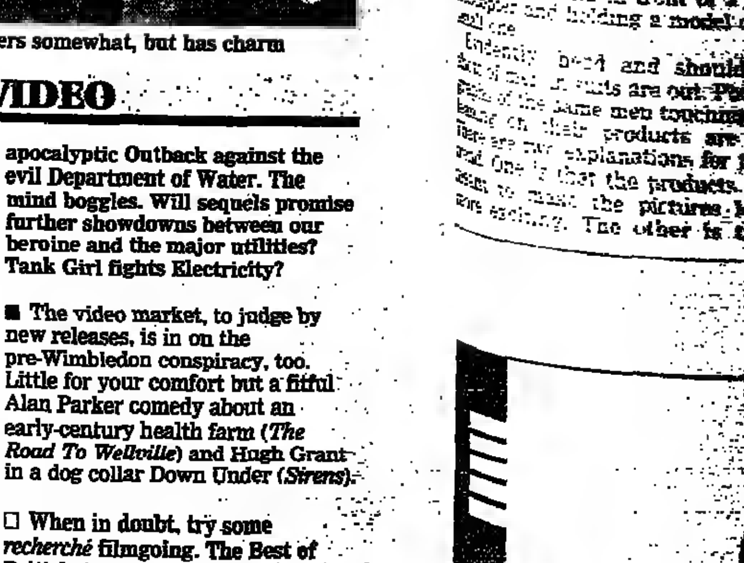
Sir Robin, 57, retires from the diplomatic service next month, and starts work in December as an executive director of Robert Fleming, the privately-owned merchant bank. News of Sir Robin's appointment comes only a few days after Smith New Court recruited Derek Keys, South Africa's former finance minister.

John Manser, Fleming's chief executive, was introduced to Renwick by a mutual friend, Sir Charles Powell, Lady Thatcher's former foreign affairs adviser. Manser denies that Renwick has been hired solely for his South African connections. "His brief will be global," says Manser.

Nevertheless, Renwick's connections in South Africa will help Fleming consolidate its position in one of the world's more exciting markets. It has a joint venture with Johannesburg brokers Martin & Co and plans to buy 50 per cent of Martin later this year.

Renwick is regarded as one of Britain's most successful ambassadors to South Africa. Armed with a hot line to Downing Street and Margaret Thatcher, he played a significant role in securing Nelson Mandela's release from captivity.

The South African president and Renwick have remained in close touch ever since and pictures of the two together in the Washington residence are exceeded only in prominence by those with British royalty and US presidents, both more or less obligatory.



Bodyguard Cage: Guarding Tess sputters somewhat, but has charm

FILM/VIDEO

■ Every year, just before Wimbledon, cinema is thrown down an oubliette by its own minders. Why let our best films roam free, distributors reason, when everyone will be watching the action on the Centre Court?

So give thanks for a passable American comedy thriller and a said-to-be-passable British comedy drama. *Guarding Tess* sputters somewhat, but has charm, as ex-First Lady Shirley MacLaine causes hell for Secret Service bodyguard Nicolas Cage. Fine premise and leading players, though be warned that writer-director Hugh Wilson is a veteran of the *Police Academy* series.

Clockwork Mice is the latest from Vadim Jean, half the team that brought you *Leon The Pig Farmer*. A teacher bonds with an emotionally disturbed schoolboy in deepest Britain. Unseen by me, but admired by sneak previewers.

□ Oddity of the week, also under wraps as I write, is *Tank Girl*. Its heroine, untimely ripped from an Australian comic strip, is a warrior bimbo doing battle in a post apocalyptic Outback against the evil Department of Water. The mind boggles. Will sequels promise further showdowns between our heroine and the major utilities? Tank Girl fights Electricity?

■ The video market, to judge by new releases, is in on the pre-Wimbledon conspiracy, too. Little for your comfort but a fitful Alan Parker comedy about an early-century health farm (*The Road To Wellville*) and Hugh Grant in a dog collar Down Under (*Sirens*).

□ When in doubt, try some *recherché* filmgoing. The Best of British Animation is a visual feast at the ICA in London. *The Harder They Come* (1972), revived at the National Film Theatre, is a film made in a rare genre – the reggae thriller – but with a rare power. The wonderful micro-budget American comedy *Clerks* is still playing. And *Six Degrees Of Separation* is the brilliant new film of John Guare's stage comedy about New York socialites in meltdown.

Nigel Andrews

MANAGEMENT

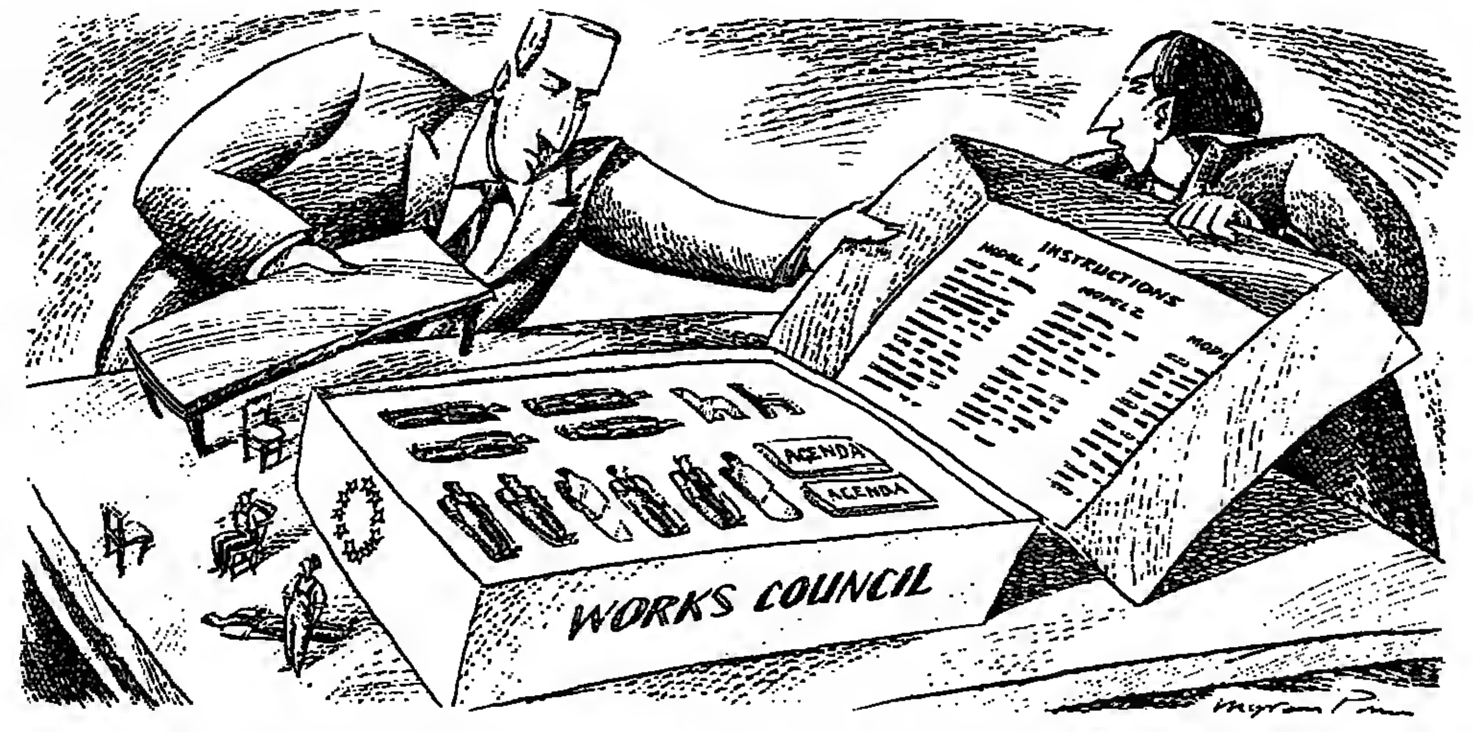
An EU directive to form European works councils may be the catalyst for corporate change, writes **Robert Taylor**

Model behaviour on which to build

A growing number of European-based multinational companies are already busy preparing for a new age of European works councils. As they ponder how to construct their new consultation and information committees – to comply with the EU directive which comes into force in September next year – many are likely to be influenced by those enterprises which have pioneered this form of employee involvement.

For many companies – especially those in France and Germany – the exercise will not be controversial. Setting up a European-wide body will be a logical development of employee consultation systems already in place in their domestic operations.

Others, however, will probably wish to study the 53 European works council agreements signed so far and which provide a variety of different models for council "architects". "They are as different as the companies and countries they cover," argues Hubert Krieger at the EU-funded European Foundation for the Improvement of Living and Working Conditions, which is based in Dublin.



There may be no uniform pattern but two distinctive works council models do appear to be emerging among the 1,500 or so European companies covered by the EU directive. (These are those employing over 1,000 workers with more than 150 in at least two member states). The first model is the works council made up solely of employee representatives. This is the most common system to be found in companies from Germany, Spain, Portugal and the Netherlands.

The second model involves company-based joint management/employee works councils, which are usual in France, Belgium and Luxembourg.

It is possible a third alternative, which might loosely be called the British model, will develop later; it would be made up primarily of trade union representatives. The word "model", though, might suggest a coherence that is lacking in practice. Although the UK is not supposed to be covered by the works council directive – thanks to the 1991 Maastricht opt-out – most relevant British companies will probably set up consultation and information committees covering all their employees.

It seems likely that the Nordic-owned multinationals will establish union-based bodies, but flexible ones. At present most companies that have set up European works councils – which are there to be consulted but which have no negotiating power – appear to be following the French model. Employee-only bodies are in place in merely seven out of 35 agreements scrutinised recently by Krieger and his colleagues.

In the French model, either the company's chief executive or his representative chairs the annual works council meeting. A few companies have established executive committees that organise the works council sessions, prepare agendas and liaise between plants: but these are still not common.

Eleven agreements specify company training as a subject for the consultation agenda, nine indicate questions related to production techniques and new technology, seven mention health and safety, and six the external environment and work organisation.

Volkswagen goes much further and even accepts that working time and wages can be discussed on its company-wide works council. This meets quarterly, although it is not a negotiating body. BSN, the French food conglomerate, has allowed gender equality to be covered.

There is considerable variety in the size of the existing works councils. As many as 73 people sit on the consultation committee of St Gobain, the French glass maker, while there are 58 on Elf Aquitaine and up to 58 at Bayer, the German company. By contrast, only up to 14 sit on BSN's works council for glass, covering two countries. When the EU directive comes into force in September 1996, a maximum of 30 will apply.

The way in which seats for the employee representatives are allocated also differs markedly between existing councils. A fair number specify they must be selected through existing national practices. This means, for example, that workers in France are chosen from the existing elected enterprise committees in the French plants, and workers in Germany from the legally based national works councils in that country. In some other cases only trade union representatives have places.

The first European-style works council was established in October 1985, between the French company Thomson Consumer Electronics and the Geneva-based European Metalworkers Federation. Mark Hall at Warwick University Industrial Relations Unit, who has just completed an analysis of existing European works councils for the European Union, believes it is too early to assess how significant they have been so far.

"Don't forget only a handful have been in existence more than a few years," he says. However, he adds: "Many have made hesitant first steps but once they are up and running they will have a dynamic of their own." It will take time to discover whether the works councils will transform how European-based multinationals conduct their corporate strategies in providing wide-ranging consultation and information disclosure of their business activities to their employees.

The directive is seen by many as a catalyst for corporate change. But how radical the new works councils will be depends not just on how willing companies are in developing an open and co-operative policy towards their employees. It will also depend on the effectiveness of the trade unions in pressing their agendas at company level.

Only then will it be possible either to deride the European works council as a marginalised irrelevance in the exercise of corporate power, or to hail them as an important step in the evolution of a more representative form of European-based company where employees enjoy rights like shareholders.

Further information can be found in Report on European-level Information and Consultation Committees – An Evaluation of Practice from the European Foundation for the Improvement of Living and Working Conditions, Loughlinstown House, Shankill, Co Dublin, Ireland. Also, Transfer: European Review of Labour and Research Vol 1 No 2 April 1995, BFr400 from European Trade Union Institute, Bld Emile Jacqmoin 155 1210 Brussels, Belgium.

Creating labour harmony

For German companies, which are used to thinking of Europe as their home market and to consulting widely with employees, the idea of European works councils is hardly an alarming innovation.

Under German law, works councils can be set up in any company with more than five employees. They are elected by all employees, union and non-union, to protect their interests in the workplace. The system has played an important role in preserving labour harmony, although critics say it also reduces corporate flexibility.

The EU directive will affect up to 300 German companies, employing more than 4m people, of which 3.3m are in Germany. As well as big concerns, such as Daimler-Benz and Siemens, a host of smaller but highly international companies will also have to comply.

In the chemical industry, one of Germany's biggest and most far-flung sectors, the idea of European works councils has already taken root. Hoechst, of Frankfurt, has set up a Committee of European Dialogue (its name for the European works council) with 29 members – 19 from the employee side and 10 from the company. "The resonance has been good," says Alexander Klak, head of personnel at the special chemicals division in Germany. "This is the first step in creating a dialogue."

The new body, in preparation since 1991, will meet once a year – it first met this February in Germany – although meetings can be held in between. Among the areas it will discuss are employment, the environment, training and the competitive strength and business health of the group. Big changes such as plant closures or reductions also come within its scope.

Of the employee representatives, seven are from Germany, four from France and two each from Italy, the Netherlands, Portugal and Spain. Its chairman is the head of Hoechst's domestic works council; the deputy is from the Netherlands. Klak says the committee will be extended this year to Britain, Greece, Scandinavia, Belgium and Denmark.

Other chemical concerns such as BASF, Bayer and Henkel are also doing their best to meet the new requirements. Schering, of Berlin, recently held the first meeting of its Europa-Forum – similar to the Hoechst committee – in Madrid. Volkswagen has long had such a body. Although some smaller ones may jib at the cost, German companies are among the most ardent proponents of the new directive.

Andrew Fisher

. . . and fostering unity

For the country that was one of the post-war pioneers of *comités d'entreprise*, it should come as no surprise that a number of its companies are already beginning to embrace the idea of their pan-European equivalents.

France is this year celebrating the 50th anniversary of works councils, which were originally constituted under a law by General de Gaulle just after the second world war in an effort to restore links between management and unions, and create a climate of harmony and unity to boost reconstruction of the country. Now there are an estimated 26,000 committees managing an estimated total annual budget of about FFr40bn (£5bn).

European-wide works committees are a more recent phenomenon. Alain Benlezar of the CFDT, one of France's largest trade union federations, says the pressure for change began in the 1970s with widespread restructuring by a growing number of companies with operations spanning national boundaries.

The first French example was created by the Thomson group in 1985. Other leading companies have since followed, including BSN Danone, Saint Gobain and Rhône Poulenc. There are about 22 such committees.

The committees have no power of veto over management decisions, but Benlezar says the fact that many are chaired by the heads of the companies shows the level of importance executives attach to them.

One pioneering example is Bull, the computer group, which first established a European information committee in 1988. Four years later, it signed a new accord setting up the structure that stands today.

Reflecting the concentration of the group's activities across Europe, 10 of the 29 employee representatives are from France, with a further 3 from Italy, and two each from Germany and the UK. A further 11 countries each supply one person. Most are nominated by unions.

The committee's role is to discuss economic, financial and social questions concerning the group which have some significance beyond the level of operations in any individual European country. There is some delicate juggling involved, since it must not act as a substitute for discussion at the national level.

Topics discussed include investment, rationalisation, changing work practices, training and R&D policies. There are two meetings each year, one after the annual results in April and the other in October.

Andrew Jack

A silly way to be put in the picture

LUCY KELLAWAY

In the pages of the financial press over the past few days there have been pictures of: Sir Antony Pilkington holding up a car windscreen; the bosses of Severn Trent Water pouring water into a glass; the chairman of a local brewery with a handful of hops, the boss of a detergents company leaning on a box of washing powder, the chairman of a shoemaker clutching a calf-length suede boot, and a director of a retailer demoniacally waving a pair of sandals designed for aerating the lawn. My favourite, though, was a picture of Lord Weinstock – who usually resists having his photo taken at all – looking quizzical standing in front of a big helicopter and holding a model of a small one.

Evidently, head and shoulders shots of men in suits are out. Photographs of the same men touching or leaning on their products are in. There are two explanations for this trend. One is that the products are meant to make the pictures look more exciting. The other is that modern bosses are not supposed to be distant figures handing down orders, but hands on managers who are closely identified with the things they sell.

On both scores the pictures fail. First the addition of a product makes the image more arresting only by making the subject look silly. What, you wonder, was Sir Antony doing standing out on a London street holding up a windscreen? Indeed, it is a rare businessman who does look comfortable stroking his product under the gaze of a camera lens. A chairman with his suited arm in a sack of hops does not convey the impression that he has an intimate knowledge of how his beer is made, but that he wants to get back to his office as quickly as possible.

Did you know that women who wear make up get paid 20 per cent more than those who do not? And did you know that we spend between 7 and 15 per cent of an average day doodling while we hang on the phone waiting for answers?

It may not come as a surprise that these "facts" have been discovered by respectively, an image consultant and an on-line information service. In their desire to demonstrate the value of their products, businesses are quoting more and more freely from anonymous surveys. You might think that no-one is taken in – the consumer is surely not so daft as to believe these self-serving numbers. Yet I for one am so daft. A survey sounds such an objective thing, and a precise a percentage number feels so much more convincing than a vague assertion. I can't help thinking that a 20 per cent pay rise would be very nice indeed – and if it can be bought with one little lipstick, it seems well worth the try.

Not all such surveys come up with implausible statistics. Last week's offering from BT was only too believable: 90 per cent of managers know what a pint of lager costs, but only a handful can tell you the price of anything in the office. It does seem a shame that in the empowered organisation – in which we are supposedly responsible for every aspect of our work – no one seems to know whether hiring a temporary secretary costs nearer £2.50 or £50 an hour.

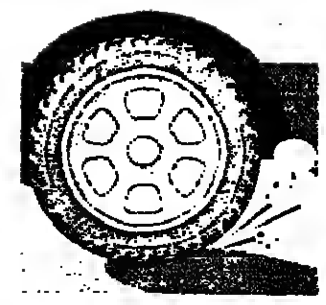
This being the case, there may be an alternative to firing even more managers when the time comes to economise. Teach them a few prices, and the cost savings should come automatically.

The other evening I found myself seated at dinner between a Canadian small businessman and a mid-Atlantic management consultant specialising in transport. I made small talk with each in turn, about where we lived, about how many children we had. They were bored; I was bored. Suddenly one leaned across me and mentioned golf, and they were away. It was great golf courses they had played, ones they hadn't played, and ones they might play in the future.

Looking up, I noticed that my husband was also ignoring the woman he was sitting next to, and was engaged in discussion with the man on her other side.

Eventually I too leaned across my neighbour to talk to the management consultant's wife. Again we discussed houses and children, and while we may not have been soul mates, at least we were speaking the same language.

I think it is time to face it: at this type of stuffy business function the sexes do not always mix well. Men find it easier talking to men, and women to women. Except on the happy occasions when there is someone to flirt with, the conventional seating plan does not work. I am not suggesting that the sexes should be segregated, nor that they should be jumbled randomly. Instead I am in favour of a new formal seating arrangement whereby each person sits next to someone of their own sex and someone of the opposite sex. This solution is not sexist, it is pro free choice, and means you may get through the evening without a crick in your neck.



FAST TRACK

Unicate

For a company which employs only three people, Unicate B.V. Authentication Systems has managed to attract some very big and impressive business partners.

Philips and Akzo Nobel of the Netherlands and Digital of the US are all committed to helping the Dutch company in its quest to corner the world market in fraud-proof identification cards, credit cards and pass keys.

It is not just the list of partners that is world-class. The company's ambition is nothing less than to elevate its product – three-dimensional authentication system, or "3DAS" – to a new standard for the security industry around the year 2000.

The 3DAS card looks like any credit card, but instead of a hologram, it has a small, round, plastic "window" containing filaments resembling a piece of fabric. The silver-coloured filaments fall in random, three-dimensional patterns, making each one unique.

Unicate takes the shapes formed by the intersections of the filaments and translates them into mathematical algorithms. These can then be used by a specially designed laser "reader" to verify the card's legitimacy. "The arrangement of the filaments cannot be copied, so fraud is ruled out," says Teunis Tel, Unicate's founder.

Tel, a 43-year-old industrial designer, says the idea came to him after visiting two separate business contacts. At Job. Enschedé, the company that prints the Netherlands' bank notes, he was struck by the high-level of security. Later, at Akzo Nobel, the Dutch chemicals group, he was intrigued by a non-woven speciality fibre. "It occurred to me that the infinite variety of fibre patterns was a perfect way to assign uniqueness to security objects, such as cards," he says.

His company, based in Groningen, is currently working on pilot projects at two Dutch hospitals. In one project, the 3DAS card is being used as a pass key, in the second the card is used as a patient's "passport", giving access to his or her vital information.

The 3DAS filaments can be added to other cards currently in use, such as the chip card, the smart card and the PIN (personal identification number) card, to enhance their security.

Longer term, 3DAS stickers could be adhered to documents, such as export orders, to guard against fraud.

Tel made his 3DAS discovery in 1992. By January 1994, after months of hard lobbying, he had persuaded Job. Enschedé (card producer), Philips (reader manufacturer), Akzo Nobel (fibre supplier) and Digital (systems integrator) to join a consortium to prepare the card for pilot production. The consortium has now been disbanded, but the four bigger companies have all signed business contracts with Unicate.

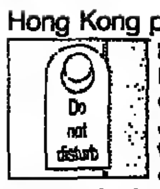
Atlas Venture, the Dutch venture capital group, took a minority stake in Unicate for an undisclosed sum in 1994, and it regards the company as one of its most promising new investments.

As part of plans for launching licensing and commercial production of 3DAS in the second quarter of 1996, additional capital investors, possibly from the US, France, Germany and the UK, will be coming on board later in 1995, Tel says.

Ronald van de Krol

BUSINESS TRAVEL

Hong Kong prices



Hong Kong has overtaken Japan as the most expensive country for hotel accommodation rates, according to Hogg Robinson, the UK business travel agents, writes Scheherazade Daneshkhu. **England, Scotland and Wales, along with Canada, were the least expensive. Paid-for room rates in Hong Kong rose 15 per cent since last year to an average of £145.81, compared to £141.68 for Japan and £50.20 for Wales at the other end of the scale. Switzerland was the third most expensive country with an average rate of £124.51. The most significant price decrease was in Italy, where average rates dropped 9 per cent to £82.24.**

Prices increased in 63 per cent of the cities surveyed, some of the sharpest rises being in Geneva, Basle and New Delhi. Hogg Robinson says that the general price trend worldwide is upwards; the movement, it said, was aided by new technology which enables hotels to change their room rates in line with occupancy more easily than before.

Strikes called off

After last week's paralysis of air traffic in Scandinavia because of a pilots' strike at Scandinavian Airlines Systems (SAS), a new pay agreement has been reported, with the result that one-day strikes announced for June 26 and 28 have been cancelled.

● India'e main domestic airline, Indian Airlines, last week asked the air force to lend it pilots after its own continued with strike action. Scores of flights have been cancelled.

● Alitalia workers in Italy, including pilots and ground staff, have scheduled further strikes this week.

Tuberculosis alert

India is sitting on a tuberculosis "time bomb", according to the World Health Organisation. Things are becoming critical because of multi-drug resistant strains of the disease, says Kraig Klaudt, a senior WHO official, who said that this year 500,000 people in India would die of tuberculosis.

The organisation estimates that 6m people have died of tuberculosis worldwide since 1993. Klaudt said things had been made worse by multi-drug resistant strains that had occurred in New Delhi, Bangalore and other parts of India.

● **One person has died from cholera and at least 56 are sick in an outbreak in the southern Ukrainian city of Mykolaiv. The region's chief epidemiologist said that people were contracting the disease after bathing in, or eating fish from, the Southern Bug river. In Moscow, city authorities last week banned swimming along a three-mile stretch of the Moscow river. Officials warn of the danger of an epidemic in Moscow this summer, which has already seen unseasonally high temperatures.**

Air safety fears

Aviation safety standards in the Pacific island of Kiribati are not up to proper standards, the US Federal Aviation Administration (FAA) warned last week. But it has awarded pass marks to South Africa, Uzbekistan and Nauru. The watchdog periodically reviews aviation safety standards of foreign countries and plans to review conditions in nearly 100 over the next few years. Kiribati will be denied permission to start flights to the US.

● Armenian Airlines has launched three scheduled weekly flights between Yerevan and Dubai, a popular shopping destination. The Tuesday and Friday flights will carry up to 60 passengers.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	25	26	27	27	[illegible]
Hong Kong	31	30	31	31	32
London	26	25	25	25	[illegible]
Frankfurt	26	30	29	26	26
New York	32	35	31	[illegible]	[illegible]
L. Angeles	25	24	24	27	25
Milan	28	28	29	29	[illegible]
Paris	26	29	29	28	27
Zurich	25	28	25	[illegible]	22

Maximum temperatures in Celsius

Information supplied by Meteo Consult of the Netherlands

How to head off health hazards

Kate Bevan takes a look at medical advice for those on the move

There is only ooe thing worse than suffering from diarrhoea – suffering from it in a strange hotel room many miles and time zones from home.

But take heart: if you are a typical business traveller, diarrhoea is probahly the worst thiog you will suffer from. Travellers are full of horror stories about the various exotic nasties they have picked up in remote places hut generally are less at risk from some of the more unpleasant and rare ailments because tbey tend to stay in more up-market hotels and stick to cities. But they should not be complaceot.

"We see a lot of business travellers," says Dr Ron Behrens of the London Hospital for Tropical Diseases' travel clinic, who adds that what they mainly seek is advice. His clinic finds out where you are going and what your plans are, and then makes detailed suggestions about precautions.

If this sounds as though you are likely to be turned into a pin-cushion, just be grateful you have grown out of hack-packing; young travellers, who live cheaply, will be advised to have all sorts of additional immunisations, including ooe against rahies. And new vaccines to replace the horrihle gamma globulin jab against bepatitis and unpleasant typhoid injections are becoming more widespread, although they may be a bit more expensive.

Business travellers should think about what they will be doing ahroad, says Dr Paul Clarke of the British Airways travel clinics. This includes careful study of your ltinerary: will you be staying in a five-star hotel in a city ceotre, or travelling in rural areas? If the latter, you will need to take more precautions. Dr Clarke points out that getting around can he as hazardous as the location itself, and stresses the risk of accidents.

Thinking ahead also includes your after-hours entertainment. Compared with the prospect of HIV, anything else seems like a reprieve, hut there are plenty of other things you can catch that would seriously hlight your life for a long time after your trip, including hepatitis B and syphilis.

If the worst does happen and you are involved in an accident, both Dr Behrens and Dr Clarke suggest having a kit with you that contains needles for suturing and injections if you are likely to be anywhere where needles might be less than trustworthy.

The Tropical Diseases hospital sells first aid kits that include needles, while Dr Behrens suggests that travellers could carry a personal medical kit including anti-diarrhoea tablets, sleeping pills, rehydration salts, iodine for sterilising water, constipation remedies and antacids.

Dr Clarke also recommends joining the Blood Care Foundation, a charity which can ship safe blood to you anywhere in the world, for a cost of £5 for a month or £35 a year.

Malaria is a killer in many parts of the world, and the best way to avoid it and other insect-borne diseases such as dengue fever is not to get bitten. This is not as difficult as it sounds: repellents containing Deet are effective, and for those who do not like slapping chemicals on their skin, Dr Clarke recommends Mosi-Guard Natural, a eucalyptus-hased repellent. However, if you are visiting a risky area, you should also talk to your doctor abont preventative drugs.

Most people will only suffer from stomach upsets, and with care even they can probably be avoided. "Think about the chain of events," says Dr Behrens. "Food from street stalls may be cooked fast and hot enough to kill any bacteria, but what if the vendor has just rinsed the plate in a bucket of dirty water?"

Travellers should also be careful of water, and seek local advice. For example, you cannot drink tap water in Jakarta, the Indonesian capital, even in hotels. Yon can purify water with iodine, but the more practical alternative to tap water is to stick to bottled water: most hotels provide it free if the tap water is risky. And make sure the top is sealed – it could be an old bottle filled with what you are trying to avoid: tap water teeming with nasties.

If you really cannot afford to be ill for a crucial meeting, your doctor may give you antibiotics to take as a preventative measure, but Dr Behrens warns that long-term use of these drugs can cause reactions, and adds that it can also be expensive.

Many large companies have an in-house doctor or nurse available, who will probably be linked to the Medical Advisory Services for Travellers Abroad (Masta) database. This provides up-to-date detailed information, and is also shared with BA's travel clinics. Masta will send you a health brief tailored to your journey which will include information on immunisations and malaria, as well as any Foreign Office advice on the region you are visiting.

For all the elaborate precautions that it is possible to take, health professionals agree that the most effective thing you can do to prevent illness is to he informed and prepared – even if it does mean submitting to the needle.

■ *Masta travellers' health line: 0891-224100. Calls are charged at 39p a minute cheap rate and 49p a minute at other times. For the number of your nearest British Airways clinic tel 0800 600900. The Hospital for Tropical Diseases also has a travellers' clinic: tel 0171-388 9600.*

US car rental fees go that extra mile

Remember wben car hire companies charged mileage fees so yon often ended np paying much more than yon expected? The bad oews is that they are coming back, at least in the US.

Step hy step, US car reotal companies are reintroducing mileage fees as a way of increasing tbeir income to compensate for higher fleet costs. A typical rate is 25 cents for every mile clocked beyond tbe first 100 miles per day.

Alamo Rent A Car started the trend two months ago by experimenting in about three-quarters of its US outlets with a charge of 20 cents per mile beyond the first 100. The experiment was suspended last month pending an evaluation of the results.

Since theo, otber big companies bave started to follow Alamo's example. Hertz charges 25 cents a mile beyond the first 100 In some cities and 29 cents a mile in New York. Avis, which already charges 25 cents a mile beyood the first 100 at New York's John F Kennedy airport and in Detroit, is extending the scheme to 21 other cities next month. And Budget Rent A Car, whicb bas beeo testing mileage caps in tbe central US, is planning to widen its scbeme to more regions next month, with charges of 20 cents or 25 cents a mile beyond the first 100.

There is a toncb of irony abont Alamo's reintrodnction of mileage fees, for it was Alamo that led the trend towards unlimited mileage in the 1980s with its advertising slogan: "Where all the miles are free". Its competitors were obliged to follow its example, and by 1990 mileage fees had all hnt disappeared.

Now tbe rental companies say they simply cannot afford it. "Over the last three years our fleet costs bave basically doobled, bnt consumers bave enjoyed good valne because rental rates have risen hy only 10 to 15 per cent," says Alamo. Avis agrees: "These days it costs more to rent a jet-ski for a day in California than it costs to rent a $25,000 car."

The explanation for the increase in fleet costs lies in the relationship between rental companies and their suppliers. Rental companies buy their vebicles in bulk from US carmakers, then return the vehicles under buy-back programmes after six months to a year for an agreed residnal valne.

When consumer demand was poor, the carmakers were happy to keep their productioo lines going by offering attractive terms to the rental companies. But witb demand now bnoyant, the car manufacturers bave switcbed snpplies away from the low-margin car rental industry towards the bigher-margin retail market.

At the same time they have clobbered the rental companies by imposing financial penalties wben used cars are returned with more than a certain number of miles on the clock.

The car rental companies say that since their extra costs are mileage-related, it is only fair that the increase in rental cbarges sbould be mileage-related, too.

Business travellers, however, are likely to be among the least affected because they tend to do the long-distance part of tbeir journey by air and use a rented car enly to take them the relatively short distance from airport to nltimate destination.

Hardest hit by the oew system are likely to be leisure users, who typically bire cars for longer trips. Bnt since leisure travellers are often business travellers on their days off, the charges seem unlikely to be especially popular with anybody.

Richard Tomkins

CONTRACTS & TENDERS

CONTRACTS & TENDERS

Winners in the new gold rush

Tim Jackson

A month or so ago, the chief executive of a computer company on the US west coast described the Internet to me as "the modern equivalent of the gold rush." I groaned inwardly, and sat back to await the predictable monologue about the astounding commercial opportunities open to companies on the Internet.

But this view proved refreshingly cynical. "Just as in California in 1849," he said, "today there are hundreds of thousands of people arriving from all over the world, hoping to make their fortunes. But the only ones who are making real money are the people who are selling picks and shovels to the miners."

One way of selling picks and shovels is to provide companies and individuals with the telephone links that allow them to get on to the Internet. Internet access providers, as businesses offering this service call themselves, are growing fast and commanding high prices from investors. A good example is Pipex, which is Britain's biggest provider of Internet access to companies. Its holding company, Unipalm, has seen its share price more than double since flotation 15 months ago, even though the Pipex business posted losses of £462,000 for the last half year.

But the most exciting pick and shovel business is probably Firefox Corporation, a company that went public last month. Firefox has carved itself a profitable niche in selling software that helps businesses to link Novell computer networks to the Internet.

The rationale behind Firefox's business is simple. Traditionally, the only way to link networked PCs to the Internet has been to install the necessary software on every PC in the network. This is not only time consuming, since it can require network managers to visit each of several hundred or even several thousand PCs every time they need to make a change, it is also expensive. Analysts estimate that the average company spends $6,000 (£3,820) a year on each of its terminals, and every extra package that needs to be installed on each client computer adds to that cost.

Firefox has developed software for Novell networks that makes the job radically simpler because it centralises it. Installing this software can take only a few minutes, compared with the dozens of hours necessary to provide internet access to every machine on a large network.

Centralising the access software has a further advantage: greatly improved security. Traditional Internet security is based on the idea of "firewalls" which examine each packet of information travelling back and forth, and decide from reading Internet Protocol addresses – the string of numbers that identifies the sending and receiving machines – whether to let it pass. This is a cumbersome way of keeping a local network secure, since it cannot discriminate between users inside the organisation, and it requires a long list of IP addresses that is hard to maintain.

With Internet access carried out from the server, Firefox's package can give different levels of Internet access to different internal users, and can limit traffic to Internet sites based on their names. So school students working on a research project, for instance, could be restricted to information from other educational institutions; in a company, employees could be given access to the entire Internet except for newsgroups beginning with the words *alt.sex*. As paranoia about Internet pornography and hacking grows, such facilities sound increasingly attractive to computer managers.

Firefox's way of managing internet access may sound obvious, especially since it is flexible enough to support the use of different client software. But the company has managed to build up a commanding lead in the market. Analysts believe that it will take another 18 months or so before Microsoft or Novell can build Firefox-style functionality into their networking software products.

Meanwhile, Firefox is making hay, and preparing to launch versions of its product for Windows NT and for Mac-based networks.

The company has sold its products to a range of blue chip institutions on both sides of the Atlantic, ranging from AT&T to the US Navy and from BT to Customs & Excise in Britain. Sales rose from $2.5m (£1.6m) in 1992 to $13.5m in 1994, and profits from $307,000 to $1.2m. There is considerable potential for further growth – Firefox has so far only shipped 10,000 units, but there are over 4m networks worldwide, of which half are likely to be linked to the Internet over the coming few years.

Firefox quotes its figures in dollars, because it is quoted on Nasdaq, but it is a British company. Five of its key directors are UK citizens, all resident in the north of England. After last month's IPO, which raised about $30m, they still control more than 60 per cent of Firefox's stock. Two factors changed their original intention to seek a quote on London's unlisted securities market: the prestige that a Nasdaq listing would bring to their dealings with US clients, and their advisers' conviction that US investors, being more technologically aware than their British counterparts, would be willing to pay a much higher price for Firefox shares.

So Firefox finds itself in the odd position of being run and owned by Britons, headquartered for tax reasons in Delaware, and managed out of San Jose, California. Yet the company's directors, now millionaires, have no plans to up sticks and move west.

They insist that the software specialists they need are easier to find in Britain, and willing to work in Solihull for only half the salaries of their US equivalents. But that is one of the wonderful things about the internet gold rush: you can make money selling picks and shovels to the miners, even from thousands of miles away.

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Here's looking at you, kid, x 1,000

Alice Rawsthorn reports on visual effects, the hot phenomenon among film makers

Anyone who looks closely – very closely – at the "gorillas" capering around the jungle in *Congo*, the new Michael Crichton thriller now riding high at the US box office, might notice that some of them look suspiciously alike.

This is because they are a dozen actors dressed in furry ape suits, whose images have been digitally replicated on the computers of the Industrial Light & Magic laboratory in San Rafael, northern California, to create a crowd scene of 50 or 60 gorillas.

The *Congo* gorillas are a more advanced version of the digital dinosaurs which ILM created for *Jurassic Park* and its digital extras in the crowd scenes of *Forrest Gump*. The Hollywood movie studios have for some time been using computers to simulate burning buildings or exploding bridges. Now they are moving on to the next stage by creating computer generated characters for their films.

Special effects, or visual effects as its practitioners now prefer to call it, is arguably the hottest phenomenon in the film industry today. The effects business has expanded sharply as advances in technology have enabled computers to create ever more elaborate cinematic illusions. The business even has its own name, Siliwood, to denote the application of Silicon Valley technology to Hollywood.

Siliwood is dominated by ILM, which was founded by George Lucas, the *Star Wars* director, when, having had enough of Hollywood, he resigned from the Academy of Motion Picture Arts and Sciences to retreat to his 2,600 acre Skywalker Ranch at San Rafael.

Its arch rival is Digital Domain, created by James Cameron, director of *True Lies* and *Terminator*, at Venice in Santa Monica. Scores of other labs have opened over the past few years. Siliwood even received the official blessing of George Lucas's old foes at the Academy last February when it sanctioned the first visual effects Oscars.

Movie studios have fought to sign up the Siliwood cyberbuffs, and their fees have rocketed. There are even unconfirmed stories that visual effects experts, like directors and stars, are being offered a percentage of a movie's box office takings as an incentive to work on that film.

Dream Quest Images was founded three years ago on the outskirts of Los Angeles with three computers; now it has 60. "Everyone in the film business is into digital effects right now, because they think it's cool," says Mark Galvin, executive producer of films and television at Data Quest. "They saw *Jurassic Park* and decided they wanted that stuff in their own films. That's bound to change, but right now our business is in a boom phase."

The watershed for Siliwood was *Jurassic Park* and the startlingly realistic dinosaurs created on George Lucas's computers for his old friend, Steven Spielberg. Past attempts to create similar effects had failed because the creatures seemed too cartoon-like, with slow, staccato movements. *Jurassic Park* proved that computers could create credible images of live creatures as well as dramatic images of blown-up buildings or bridges.

ILM has since refined the *Jurassic Park* technology to create the *Congo* gorillas; the friendly ghost in *Casper*, the current US box office hit; and more recently for *Jumanji*, a new animated film set to come out at the end of this year in which the star, Robin Williams, capers around with a bunch of computer-generated animals.

"*Jumanji* takes us several steps further than *Jurassic Park*," says Ellen Pasternak, director of ILM. "The animals look even more life-like in close-ups. The quality of their fur looks more realistic. They're faster, better co-ordinated and they have more facial expressions."

The Siliwood labs are also creating computer-generated images of humans as well as animals. They started with digital images of extras to enable the movie studios to save money by hiring a small number of extras to create the illusion of huge crowds of people, which would be too expensive to shoot.

One of the most dramatic digital scenes is the anti-Vietnam war demonstration in *Forrest Gump*. The director filmed fewer than 1,000 extras, whom ILM's computers turned into a crowd of over 50,000. The computers even changed the colour of the protesters' clothes and placards to disguise the fact that the "crowd" was composed of dozens of different images of the same person.

Cult thriller *The Crow* went further by digitally replicating its star, the centre of the audience's attention, rather than extras who only get a cursory glance. Brandon Lee, star of *The Crow*, died during filming, before some of his key scenes were completed.

Dream Quest, which was already working on the visual effects, took images of Lee from footage that had ended up on the editing room floor and digitally "painted" them on to the extra scenes needed to finish the film. "No one had pushed the technology that far before," says Mark Galvin. "*The Crow* gave us a chance to do it. We had to, if we were going to finish the film."

ILM used similar technology in *The Mask* to enable Jim Carrey to perform extraordinary "feats" such as peeling the mask off his face or swallowing 10 sticks of dynamite which exploded in his stomach. Digital Domain achieved the same effect by making it looks as though Arnold Schwarzenegger was "piloting" a Harrier jet as he pursued villains across the Miami skyline in *True Lies*.

"When they shot the scene in *The Fugitive* where Harrison Ford jumps down the waterfall, they filmed Harrison's face at the top and cut away when the stuntman made the jump," said Mark Galvin. "Now we'd be able to show the face during the jump so it would really look as if it was him."

The Congo gorillas are a more advanced version of the digital dinosaurs created for Jurassic Park

It would also be possible to "age" actors by computer rather than make-up, or "rejuvenate" them for flashbacks. And, as technology advances, computers could be used to create the main characters in films, who are scrutinised more closely than extras.

There is a possibly epocryphal Siliwood story that a movie studio has commissioned a lab to create the perfect male and female stars, combining the best physical features of existing actors and actresses into computerised ideals. Another story claims that an Oscar-winning actress, who has been working out hard and is approaching her 40s, has asked a lab to scan her so that sha will have a digital image of her body in peak physical condition if she needs to use it in future films.

Some in Siliwood suspect this is going too far. After all, one of the reasons why real stars are so appealing is because of their idiosyncrasies. Do Sharon Stone's female fans really want to see a woman with an improbably perfect silhouette in the sex scenes of *The Quick And The Dead*? Or are they sneakily hoping that she has gained a little weight? Are men secretly relieved when they go to see *Die Hard With A Vengeance* and realise that Bruce Willis has gone bald?

"Creating digital stars could be done and probably will be done, but who needs them?" says Ellen Pasternak of ILM. "It would take a movie too far away from reality. We're in the business of helping film makers to tell their stories – not putting actors out of business."

Barmitzvah lessons over the Internet

By John Authers

Bad publicity about the availability of pornography on the Internet has obscured the medium's potential for more sacred purposes.

This month, British Ort, a large Jewish educational charity which includes Lord Young of Graffham and Chaim Herzog, the former Israeli head of state, among its presidents, unveiled for the first time the availability of Barmitzvah lessons over the Internet.

The idea is that young Jewish boys in isolated communities around the world can learn, and sing, their portion of the law. The lessons are available using the ORTnet system which the charity, based in London's Finchley Road, also uses for providing education to rural communities around the world. The lessons are an appealing mixture of ancient rituals and customs and leading edge technology.

Once the lesson has been accessed the students – either a teen-age Jewish boy or an adult coming to Judaism late in life – can select the verses they need to learn by telling the machine their birth-date. This saves them having to sift through all the 6,000 potential verses, although all of them are available on the system.

Once the system has selected a verse, the student can hear it being sung by a real cantor. It can be replayed, allowing for practice. Translations and transliterations from Hebrew are also available.

The system also allows for truly interactive "lessons", as tha ORTnet system allows sound recordings to be sent from the user's computer to a remote one.

Now that the entire Chumash, or Jewish bible, is available electronically, Ort hopes that it can also be used as a "flexible resource for Jewish continuity and education".

It is also convinced that the Internet has many subscribers who will find the service useful – of the 30m or more people accessing the Internet, it estimates that 100,000 are Jewish, although many live in remote locations. According to Ort, a major function of the Internet is to give these people information about Jewish life and activities.

The electronic Herald for Scots everywhere

By James Buxton

There are supposed to be about 20m people of Scottish descent living outside Scotland. Not all of them have modems, but those that do will be able, from next month, to keep up with events in Scotland via the Internet.

The Herald, the Glasgow-based daily newspaper, is opening an electronic newspaper on the World Wide Web on July 1 and believes it will be the first UK regional daily newspaper to do so. It will offer Internet users a selection of news, features, sport and columnists. Its sister paper, the Evening Times, will provide news on Glasgow.

Liam Kane, chief executive of Caledonian Nawspapers, the unquoted company which bought the papers from Lonrho in 1992, is convinced that the online information business will grow greatly in the next two years, and wants the company to be the leader in Scotland.

Though national newspapers such as the Financial Times and Daily Telegraph are already available on the Internet, the Herald has a special constituency because of the worldwide Scottish diaspora. The Irish Times has been tapping into the global network of Irish people via the Internet for the last few months.

Ray Perman, development director at Caledonian, says the venture is aimed both at Scots working abroad and at the far greater number of people of Scottish extraction in the English-speaking world, particularly in the US, Canada and the antipodes, a number of whom obtain The Herald by airmail. It may also attract the many Scots who live across the border in England and find it hard to obtain Scottish dailies.

Initially Caledonian will make no money from putting its newspapers on the Internet since no one will be paying for them. But it hopes to build up enough readers to attract advertisers to tha service. It is likely to follow the Daily Telegraph and the Irish Times in getting its readers to register.

Kane sees the Internet service as the forerunner of other online ventures by the company's new subsidiary, Caledonian Information and Media Services (CIMS). It will also offer commercial publishing services to other businesses. At the same time as it launches its electronic newspapers, Caledonian will put out an electronic version of Software Echo, a quarterly software magazine published by Scottish Enterprise, the development body.

Though The Herald outsells its Edinburgh rival The Scotsman by about 50 per cent, most of its readers are in the west of Scotland around Glasgow. The Scottish newspaper market is segmented by region: people from Edinburgh do not normally read The Herald and few people in Glasgow read The Scotsman. People in Dundee and Aberdeen have their own dailies. So there may be Internet possibilities not only for The Scotsman but also for the Dundee Courier and the Aberdeen Press & Journal.

A sample page of The Herald and Evening Times went online last week. Its web address is *http:www.cims.co.uk/cims*.

PW puts spotlight on content providers

By Raymond Snoddy

The primary corporate goal of the 1990s for the entertainment, media and communications industries may turn out to be developing the services that customers want and are willing to pay for, according to consultants Price Waterhouse.

In a weighty review of what it calls the EMC industries, PW warns that so far more attention has been paid to the process of exchanging information than to the people who will use it.

The consultant believes that in the emerging digital world the competitive edge will probably belong to companies that provide content. "It is content that sells new platforms and software packages, and the reverse is seldom, if ever, true," argues the Price Waterhouse *Technology Forecast*, which is available to clients.

Although multimedia and interactive technologies such as CD-Rom have been available for some time, wide-scale innovation and services had yet to be seen. The race to develop the next "killer application" that would repay its developer thousands of times over "has become the focus, rather than how to provide customers with real-time access to any platform, database, program, entertainment or consumer transaction."

PW believes that evolution of the information highway will be incremental and will revolve around development and interaction among numerous networks that transport voice, images, sound and data.

And although the features of multimedia home PCs, TVs with set-top boxes and digital interactive consumer equipment (Dice) will start to converge over the next few years, the basic differences between the categories will not disappear, at least for the foreseeable future. "Generally, instead of new companies, current manufacturers of PCs, computer work-stations, set-top boxes and consumer electronics will be the leading vendors of multimedia PCs, TVs with set-top boxes and Dice in this decade," the report says.

At a seminar in London to unveil the *Technology Forecast*, there was a considerable measure of agreement that the digital revolution would represent a generational change rather than an overnight sensation.

Advertising agency McCann Erickson even suggested that there was a new digital generation of 18 to 29-year-olds emerging that was significantly different from previous generations. The digital generation took technology for granted. As a result, old mass market techniques of communication and persuasion were inadequate to reach them.

A Japanese view of the future

Colin Amery praises Arata Isozaki, whose work is now on display in London

There is a permanent fascination about the architecture and craft of Japan, because it is one of the few countries that has absorbed the aesthetics of modernism within an existing national culture. *Japan is good at the modern world.*

Its industry exploits the newest technology within a highly controlled framework of austere design. The simplicity of traditional Japanese architecture has always depended on the use of few materials, and good Japanese architects continue to apply this refined aesthetic to their best contemporary buildings.

There are no examples of the best work of contemporary Japanese architects in England, and it will remain a permanent sadness that the jury for the proposed new Tate gallery at Bankside, near London's Southwark Bridge, did not quite have the nerve to award the commission to Tadao Ando, the recent winner of the Pritzker Prize (the equivalent of a Nobel prize for architecture), despite the fact that his was the only scheme that was in itself a work of contemporary art.

An exhibition of an architect's work can only be a substitute for the real thing, but the Royal Institute of British Architects is right to mount a significant display of the work of Arata Isozsaki at the Architecture Centre at 66 Portland Place, London W1, until August.

Isozaki is very much a late 20th century man and the development of his architecture reflects the enormous changes of the last half of this century. He is now in his mid-60s and is something of an architectural guru, despite his air of playful sophistication.

But it is always important to remember that he is Japanese, and that he always maintains – even if it is invisible – the Japanese tradition in his work. Even when working for Walt Disney in the US, Isozaki's work is essentially in the Japanese spirit.

When looking at his work in Japan or in the exhibition it is worth understanding the essential differences between Japanese architectural culture and that of the west. One of the chief shrines of Japan, the Grand Shrine of Ise, is an example of Japan's wooden architecture, which has a history that goes back some 1,300 years.

But when you visit the shrine what you see is a wooden building that is at the most 20 years old. There are two adjoining sites for the temple, and every 20 years the building is ritually destroyed and rebuilt. This ensures the survival of the ancient techniques of timber construction but it also puts the material values of the building in their place.

The aesthetic and the sense of order is passed on every 20 years, thus ensuring not just their physical survival but also a proper understanding of them. It is as though we in the west had decided to destroy and rebuild the Parthenon five times a century.

This fascinating belief in the sustainable value of cultural transmission is one of the prime reasons for the orderly progress of Japanese culture and its ability to absorb the 20th century instead of being destroyed by it.

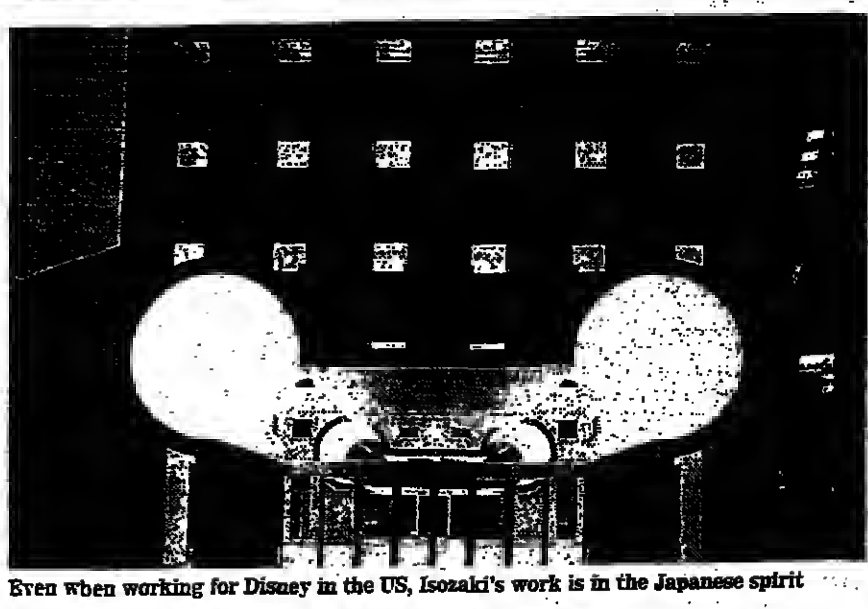
It is something that is noticeable in the world of fashion. The clothes of a Japanese designer like Issey Miyake are both contemporary and timeless. In the modest fashion store MUJI, in London's Covent Garden, the simple elegance of everything on sale makes the surrounding shops look trendy and unrefined.

In the 1960s, when Japan was enjoying swift economic growth, Isozaki and his friends formed a powerful architectural consortium known as the Metabolists. They were interested in redesigning cities, and began to ally the Japanese understanding of the cycle of destruction and creation to the consumerist values of the 1960s.

The resulting durable architecture of capsules for living in seemed radical at the time. But it developed into a system of architecture where a permanent framework was achieved and changing elements were connected to it.

For a while, this sort of "plug-in city" seemed like the answer to many urban problems. Why should not a contemporary living unit be designed in the same way as cars or transistor radios? Mass produced but perfectly designed units looked like a solution to the problems of over crowded and fast growing cities.

However, Isozaki now sees that this solution could not at the same time civilise city living, and he has rejected the vision of mass production. Indeed, he said recently that he feels a city can no longer be designed, and that his architectural challenge lies in the design of individual buildings.



Even when working for Disney in the US, Isozaki's work is in the Japanese spirit

In the essay that accompanies the exhibition in London it is clear that even the individual building has lost its significance because of Isozaki's awareness that all architecture is ultimately reduced to ruins. This is not a romantic idea but a sense that the presence of the architectural *ruins of the past hovers over all new* architecture. Architects have to recall the past: the continuity of their cultural traditions.

These are challenging ideas, and sometimes it is hard to see quite how they apply to Isozaki's buildings. Look at the Disney building of Lake Buena Vista, Florida, and there is a sense both of timelessness and transience. Consider the central plaza of the Tsukuba Centre in Japan and there is a sense of the modern style already in ruins.

Isozaki explains that he has completely rejected modernism. What we see in this exhibition is his search for the future. It is a relevant and intriguing exhibition that questions almost everything that architects are doing today. In itself, that is a good thing.

Wimbledon: it's a whole new ballgame

SPORT

KEITH WHEATLEY

Watch out for tennis players whingeing about soft balls. Wimbledon starts next Monday and by mid-week it is an ace to a double-fault that a handful of stars will be blaming their early exits on new-type balls, which are less pressurised and are designed to slow the grass-court game down.

Last week's Stella Artois men's tournament at Queen's Club in west London gave a foretaste. "The balls were dire. I can't see the point of changing them," moaned British No 1 Jeremy Bates, prior to being knocked out 6-3 7-5 by Pete Sampras (left). "They feel a bit softer but it's no big deal," consoled top seeded Sampras.

The problem has been clear enough for some years. On grass, the fastest surface tennis is played on, big servers like Sampras, Boris Becker and Goran Ivanisevic thunder down serves which are nearly unplayable. The odd lucky return is even harder to deal with. The end result is a distinct lack of entertaining rallies – which is what the court-side crowd and TV audience really want to see.

A year or so ago Brian Tobin, the outspoken Australian president of the International Tennis Federation, told me the game had two serious problems. One was the robotic personalities of the modern stars. The second was the increasing dominance of "power tennis".

Wimbledon and the Lawn Tennis Association decided during the winter to ask Slazenger, the sports equipment manufacturer, to produce slower balls.

Slazenger doggedly refuses to provide any technical information about the precise changes in the ball, saying only that nothing except the pressure has been changed. The balls were used at two earlier grass court tournaments, in Kent and the Netherlands, without comment, says a spokesman. "It's felt that the cold, damp conditions at Queen's contributed to the adverse comments from players," he adds.

Fortunately, the ITF has an expert whose role in life is to measure the bounce of tennis balls. Tony Gathercole is as helpful as Slazenger is obtuse. "When a ball is dropped from 100 inches on to a hard floor it must bounce to a height of between 53in and 58in," he explains.

"That's quite a wide spectrum of possibility. And it isn't just internal pressure that is a factor. We use something called a Stevens machine to measure the elasticity that allows the ball to return to its original shape after being struck. That is very much controlled by the rubber compound and the felt. As long as the manufacturers produce balls within those performance parameters they don't really have to tell anyone how they're doing it. A tournament director can ask them for fast balls or slower ones."

In search of an objective opinion as to whether the changed balls had made any real difference to the play on court, I spoke to David Mercer, for 13 years a Wimbledon umpire and, since the death of Dan Maskell, a senior commentator for BBC television.

"The honest answer is that it's had a very limited effect. It won't prevent someone like Sampras winning a match but it might stop 1 or 2 per cent of his serves being aces," says Mercer. "There's two sides to this argument. At Roland Garos [in Paris] we had two baseliners in the final and they bored the pants off us. If we were to say to the French, let's slow the game down, they'd be incredulous."

In fact, officials from the French Open have spoken to the ITF about finding *faster* balls to mitigate the deadening effects of playing on clay. Several knowledgeable observers, including Mercer, make the point that a profound yet unintended consequence of the changed balls could be to widen the gulf between the big hitters and the less powerful 'touch' players.

"My serve goes from 90mph down to maybe 83mph, and that's a big drop," said Jeremy Bates after losing to Sampras. "Pete's might drop to 130mph but it's still coming past with flames on it."

He is supported by an official who wishes to stay anonymous. "This is likely to be an incremental change, with even slower balls next year. The long-term effect will be the emergence of a definite second division [of players] who don't even get close to the top players," he says.

Of course, the real problem is not small spherical objects but a living green organism. Grass is now a total anomaly in professional tennis. A couple of tournaments on grass just before Wimbledon and one in Newport, Rhode Island, afterwards make up just a few weeks of the ATP tour.

The rest of the time tennis is played on similar artificial surfaces or clay. "Grass is fast," says David Mercer. "If you don't want services to be the dominant factor in the game, you just don't play on that surface. Yet if you say to the top players, should we dig up the turf, they all say no."

Perhaps the texture and consistency of the grass could be tweaked by the rulemakers. Back to Tony Gathercole: "Actually, there are no rules at all regarding the court surface," he explains. "You could play on a ploughed field and it doesn't even have to be flat."

Maybe this is the way a Briton could win Wimbledon.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Alcan Aluminium $0.075
Aquarius Plus Collared Sec FRN's '00 $334.93
BP America 9½% Gtd Nts '98 £95
BTR $0.6606
Christiana Bank 8% Sub Nts '96 $800
EFG 0.5p
Financa Ona 5¾% Sub Cnv Bds '03 $57.5
Flash Ser Theta Secd FRN's '99 Y676180
Flogas IR6.05p
Gold Intl Fin Tranche B FRN's '02 Y714097
Hankyu 7⅛% Bds 2000 Y7125000
Japan Airlines 4.6% Bds '98 Y460000
Japan Fin Corp for Municipal Ents 7½% Gtd Bds '04 $375
Kobe Steel 7.1% Bds '98 Y710000
Marubeni 4.3% Nts '97 Y430000
Do 4.6% Nts '98 Y460000
Mitsui Toatsu Chems 5.8% Bds '96 Y580000
Do 5.85% Bds '97 Y585000
Nippon Telegraph & Telephone 8½% Nts '97 C$85
Sanwa Australia Fin Gtd Fltg/Fxd rate Nts '02 $3779.03
Sumitomo Metal Inds 5.65% Bds '96 Y565000
Do 5¾% Bds '97 Y575000
Sumitomo Realty & Dev FRN's '96 Y58771
Suter 6p
Toto 5.7% Bds '97 Y570000
Yasuda Trust Asia Pac Fltg/Fxd rate Gtd Nts '02 $3680.14
Yasuda Tst & Bkg (Lux) Fltg rate Gtd Nts 2000 $183.9

■ **TOMORROW**
Assoc British Ports 11⅞% Bds '11 £593.75
Burmah Castrol Cap (Jersey) 9½% Cnv Cap Bds '06 £47.5
Coventry Bldg Soc FRN's '97 £171.71
Creuset FFr0.45
DFS Furniture 2.65p
DKB Intl Fltg/Fxd rate Gtd Nts '04 $36968.75
Enron $0.2
Essex & Suffolk Water 3½% Perp Deb £1.75
Do 4% Perp Deb £2
Do 5% Perp Deb £2.50
General Motors Acceptance Nts '20 '00 £41.67
Italian Intl Bank Sub FRN's '96 $357.05
Japan Airlines 8% Gtd Bds '96 $400
Mount Charlotte Inv 10¾% 1st Mort Deb '14 £5.375
New Zealand 5½% IL Nts '95 Y55000
UPF 1.5p

■ **WEDNESDAY JUNE 21**
Air London Intl 1.6p
Anglo-Eastern Plantations 3p
CRT 0.58p
Helical Bar 3.75p
Unilaver 7⅛% Bds '04 FFr712.5
Vymura 3.1p
Woolwich Bldg Soc FRN's '99 £173.29

■ **THURSDAY JUNE 22**
Barclays Bank 9% Bds '96 FFr900
Do Fltg rate Snr Sub Bds '01 £37802.4
Commercial Loans on Inv Prop Class A Comm Mtg Bkd FRN'a '09 £171.63
Do Class M1 Comm Mtg Bkd FRN's '09 £196.29
Do Class M2 Comm Mtg Bkd FRN's '09 £201.33
Do Class B Comm Mtg Bkd FRN's '09 £275.68
Halliburton $0.25
IAWS A IR1.265p
LASMO 10⅜% Deb '09 £5.1875
Marine Midland Banks Sub FRN's '09 $164.51
Mercury Keystone Inv Tst 5p
MMC Intl Fin (Netherlanda) 6% Bds '98 $60000
Moss Bros 9p
Nationwide Bldg Soc Sub FRN'a 2000 £191.25
Do Sub FRN's '04 £178.01
Newcastle Bldg Soc 10¾% Perm Int Bearing Shs £53.75
Royal Bank of Scotland 9⅝% Sub Bds '15 £962.5
SGW Fin Gtd FRN'a '98 £17.36
Standard Chartered Und Prim Cap FRN's £86.64
Waterford Foods A IR1.72p

■ **FRIDAY JUNE 23**
Abbey Natl Treas Svs 7¾% Gtd Nts '98 £77.5
Aircraft Lease Portfolio Secn Class A1 7¾% Fxd rate Nts '97 $387.5
Do Class A2 FRN's '97 $384.85
All Nippon Airways 4½% Nts '98 Y450000
Anglo-American Coal R4.8
Bank fur Arbeit und Wirtschaft Sub FRN's '99 $350.73
DCC IR3.76p
Dawsongroup 3.7p
Devenish (JA) 10¼% Deb '17 £5.125
English Natl Inv Pfd 11.8p
Do Dfd 9.35p
Graystone 0.18p
Hemlo Gold Mines C$0.1
Hercules $0.21
Italy (Rep of) FRN'a 2000 $341.25
Leeds Permanent Bldg Soc Sub Var rate Nts £182.42
Marine Midland Bank Sub Cap FRN's '96 $162.92
Melrose Energy 0.16p
Midland Bank Und Prim Cap FRN's $357.05
Quicks 3.25p
Sage 4p
Speciality Shops 1.28p
Woolwich Bldg Soc 9¾% Fxd/Fltg rate Nte '95 £35.75
Yorkshire-Tyne Tees Television 4.7p

■ **SUNDAY JUNE 25**
TSB Gilt Fund Ptg Red Prf (Class B) 0.68p
UB Invs 6½% Bds '96 $65

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Anglo-Eastern Plantations, 1, St. Paul's Churchyard, E.C., 11.00
Greenway Hldgs, Hilton Hotel, Outwood Lane, Manchester, 11.00
Greycoat, 9, Savoy Street, W.C., 10.00
Premier Health Grp, 44, Worship Street, E.C., 9.00
BOARD MEETINGS:
Finals:
BTP
Barner Homes
British Steel
Essex & Suffolk Water
Filofax
Fletcher King
Hambros Inv Tst
Hicking Pentecost
JLI Grp
King & Shaxson
Sterling Inds
Wainhomes
Wellman
Interims:
Airtours
Bankers Inv Tst
Denmans Electrical
Johnson & Firth Brown
Turkey Tst

■ **TOMORROW**
COMPANY MEETINGS:
Baring Stratton Inv Tst, 155, Bishopsgate, E.C., 11.30
Derby Tst, 1, Connaught Place, W., 11.00
English National Inv, 3, Finsbury Avenue, E.C., 12.00
Govett Oriental Inv Tst, Painters Hall, 9, Little Trinity Lane, E.C., 12.00
Jarvis, The Mary Green Hotel, Brentwood, Essex, 10.00
Personal Assets Tst, 1, Charlotte Square, Edinburgh, 12.30
M & G Recovery Inv Tst, Three Quays, Tower Hill, E.C., 11.00
Shires Inv, Merchant's House, 7, West George Street, Glasgow, 12.00
Taylor Nelson, AGB House, West Gate, W., 11.30
Warner Howard, The Brewery, Chiswell Street, E.C., 12.00
Whitbread, The Brewery, Chiswell Street, E.C., 12.00
BOARD MEETINGS:
Finals:
American Endeavour Fund
Amber Industrial
Chloride Grp
Debenham Tewson & Chinnocks
Evans of Leeds
Harris (Philip)
Hazlewood Foods
Kalamazoo Computer
Prior
Safeland
Shanks & McEwan
Smith St Aubyn
South Western Elec
Interims:
Aukett Associates
Eurotherm
First Leisure
LPA
Manakin
Watson & Philip

■ **WEDNESDAY JUNE 21**
COMPANY MEETINGS:
Grieves Grp, Dartmouth House, 37, Charles Street, W., 12.00
Hay (Norman), The Armoury, Council House, Earl Street, Coventry, 11.00
I & S UK Smaller Cos Tst, 1, Charlotte Square, Edinburgh, 12.30
Lewis (John), 171, Victoria Street, S.W., 12.15
Lewis (John) Partnership, 171, Victoria Street, S.W., 12.30
Radiotrust, 99, Charterhouse Street, E.C., 12.00
BOARD MEETINGS:
Finals:
Artesian Estates
Assoc British Eng
Bolton Grp
Caledonia Inv
Courts
ERF (Hldgs)
GEI Int
Norweb
Sims Food
Symonds Eng
Waddington (J)
Interims:
Heavitree Brewery
Legal & General Recovery Inv Tst
Quality Care Homes

■ **THURSDAY JUNE 22**
COMPANY MEETINGS:
British & American Film Hldgs, 214, The Chambers, Chelsea Harbour, S.W., 12.15
Highcroft, The Doghouse Hotel, Oxfordshire, 12.00
Moss Bros, 8, St. Johns Hill, S.W., 10.00
Scottish Mortgage & Tst, 1, Rutland Court, Edinburgh, 11.00
Slingsby (H.C.), Victoria Hotel, Bradford, 10.30
Yule Catto, 23, Great Winchester Street, E.C. 12.00
BOARD MEETINGS:
Finals:
Carpetright
Castle Mill
Fuller Smith & Turner
Kewill Systems
Learmonth & Burchett
Manweb
M & G Second Dual Tst
Midland & Scottish Res
Rolfe & Nolan
Tams (John)
Wessex Water
Interims:
Delian Lloyds Inv Tst
GET Grp
Hardys & Hansons
Lonrho
TSB Grp

■ **FRIDAY JUNE 23**
COMPANY MEETINGS:
Farnell Electronics, The Harrogate International Conference Centre, Harrogate, N. Yorks., 1.00
Morgan Grenfell Latin American Cos Tst, 23, Great Winchester Street, E.C., 11.30
BOARD MEETINGS:
Finals:
Crown Eyeglass
East Midland Elec
Shaw (Arthur)
Stoddard Sekers
Syltone
Interims:
Henderson Strata Inv Tst
Sporatl (C.A.)

■ **SATURDAY JUNE 24**
COMPANY MEETINGS:
BOARD MEETINGS:
Finals:
Interims:

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

ARTS

OPENINGS

NEW YORK
The Whitney Museum's latest retrospective of American realist Edward Hopper mixes his imagery with that of his contemporaries and successors in literature, photography and film. It brings together 60 Hopper paintings – most of them crowd-pleasing favourites borrowed from other US collections. The show opens on Thursday and runs until October.

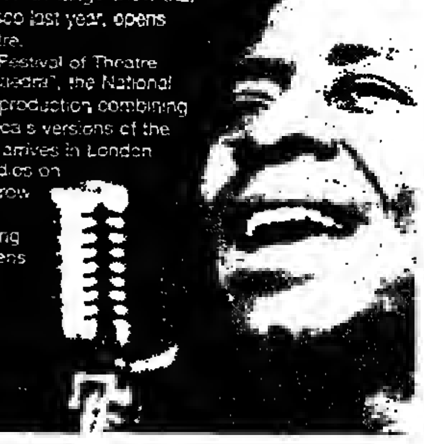
Darcey Bussell (right), young star of the the Royal Ballet, Covent Garden, dances the role of Titania in George Balanchine's "Midsummer Night's Dream" at New York State Theater on Friday and Sunday. Even though the Russian-American Balanchine – founder and director of New York City Ballet – died while Bussell was still a British student, his ballets have been probably her most glorious vehicles.

PARIS
In 1988 the Soviet authorities donated to France more than 60 works by Natalia Goncharova (right) and Mikhail Larionov, two key figures in early 20th century Russian art. These form the basis of an exhibition at the Centre Georges Pompidou, opening on Wednesday. A parallel show devoted to Russian Futurism opens at the Bibliothèque Publique d'information on June 28.

LUBECK
Despite the ructions caused by the departure of founder-director Justus Frantz, the 1995 Schleswig-Holstein Music Festival promises to live up to the quality of previous years, with a wide variety of music-making in barns, castles, traditional halls and open-air auditoria. Herbert Blomstedt conducts the opening concerts on Saturday and Sunday in Lubeck's Marienkirche.

LONDON
Two more musicals arrive in the West End this week: "Unforgettable", about the singer Nat King Cole and starring Clarke Peters, opens at the Garrick Theatre tonight and "Forever Tango", an all-tango show that was a huge hit in San Francisco last year, opens tomorrow at the Strand Theatre.

The London International Festival of Theatre continues this week with "Phaedra", the National Theatre of Craiova's striking production combining Euripides's and Seneca's versions of the famous myth, which arrives in London at the Riverside Studios on Wednesday. Tomorrow the Balinese dance drama "Seka Barong of Singapadu" opens at the Queen Elizabeth Hall.



One of the strongest artistic expressions of Czech nationalism failed to stir native emotions: Eva Urbanová in the title role in Smetana's 'Libuše' in Prague

Czech culture in crisis

The country's native traditions are being trampled in the headlong rush to absorb western culture, writes Andrew Clark

A ceremonial fanfare rang out, the audience rose to its feet, and President Václav Havel took his place for the opening concert of this year's Prague Spring festival. The Czech Philharmonic Orchestra launched into the national anthem, followed by a rousing performance of Smetana's symphonic cycle *My Country*. Throughout the land, tens of thousands of Czechs watched the concert on television.

At the heart of the music, and in the hearts of most of those listening, lay an enormous sense of national pride – the same feeling which has nourished Czech culture for the past 150 years. A national tradition in music and poetry, founded by 19th century patriots like Smetana and Karel Hynek Mácha, was the Czechs' most enduring weapon in their fight against foreign occupation. It inspired resistance to the Austro-Hungarian empire, to the Nazis and more recently to the Soviet army. It created an unmistakable repertoire and performing style within the wider spectrum of European culture. No national school is more sharply defined.

But as freedom takes root, such outpourings of patriotic emotion are becoming rare and less intense. Czech cultural traditions are being trampled in the headlong rush to absorb western culture. The desire to make money has supplanted long-cherished values in music and art. The nationalist ethos – respect for one's cultural roots and a desire to see them developed and recognised – has become old hat.

"Nationalist traditions appeal to the older generation who lived through hard times," says 83-year old critic and opera administrator Pavel Eckstein. "Such traditions cannot satisfy the young people of today – the only thing that interests them is imported culture. The Rolling Stones are more important now."

This re-ordering of priorities has shaken every pillar of Czech musical life. Teachers complain that most music students are no longer prepared to spend time "finishing" their skills before graduation: there are too many distractions and temptations, whether it be the easy money of Prague's freelance music market, or a visit to the pub. And with guaranteed employment a thing of the past, many young musicians are turning to expanding professions like banking.

The contemporary music scene is also in turmoil. While older composers continue to explore the folk roots of Czech tradition within a modern idiom, the younger generation has been gorging itself on the forbidden fruit of the communist era – the western avant-garde. "This results in a style which is already out of date in the west and lacks a compensating Czech identity," says Graham Melville-Mason, the British musicologist who has played an advisory role in Czech musical life since the revolution.

He says gifted young composers like Miroslav Pudlák, who recently won a commission from the Academy of St Martin-in-the-Fields, believe they are creating their own Czech avant-garde, "but they end up aping all the 'isms' which for us are passing into the mists of time. Hopefully they will work it through their system and then realise the value of their own tradition."

Nowhere is the crumbling of nationalist ideals more evident than in orchestral and operatic life. In the case of the Czech Philharmonic, the damage has been self-inflicted. Despite good native candidates, the players chose a German, Gerd Albrecht, as chief conductor three years ago – on the assumption that he would bring lucrative touring and recording contracts. These have not materialised, and controversy over Albrecht's personality is holding up the orchestra's artistic progress. Several provincial orchestras have made a similar mistake.

By contrast, the major opera companies have had little choice but to swim with the commercial tide. The Prague State Opera (formerly the Smetana Theatre) has dropped its Czech repertoire in favour of a *Carmen*, *La traviata* and other popular works. The quality is appalling, and seat-prices are beyond the reach of local audiences – but hoardes of undiscriminating tourists keep the theatre full. The company's new director, internationally-renowned mezzo Eva Randová, knows that if Prague's tourist wave subsides, her theatre will close.

The National Theatre is not much better off. Vocal standards are low and productions cheap. Better-quality Czech singers head for the nearest border – and who can blame them? The baritone Ivan Kusnjer, currently singing in Janáček's *The Cunning Little Vixen* in Paris, will earn from his six performances the equivalent of four years' salary as a National Theatre principal.

Although the National Theatre still programmes works by Smetana and Dvořák, Czech audiences have lost their appetite for native repertoire. That was clear from the reception given to the recent new production of Smetana's *Libuše*. The opera – one of the strongest artistic expressions of Czech nationalism – ends with the mythical Bohemian princess Libuše prophesying a glorious future for the Czech people. In the past this guaranteed a highly emotional climax, with the audience standing throughout the final scene. On this occasion, despite Eva Urbanová's solid performance in the title role, the audience sat motionless. The feeling of national solidarity was no longer there.

Dotted across this bleak landscape are a few nuggets of comfort. While other Czech amateur choirs struggle to survive, the Brno-based Moravian Teachers' Chorus has been rejuvenated by Lubomír Mátl, using his musical experience and wide-ranging contacts to fill its diary. The conductor Jiří Bělohlávek – spurned by the Czech Philharmonic but courted by too foreign ensembles – has poured his orchestra-training talents into the Prague Chamber Philharmonic, a group of young professional players who have repaid his dedication. Roman Belor has used his managerial skills to enhance the international exposure of the Prague Symphony Orchestra. And there are other little-trumpeted success stories – such as the open-air Janáček festival at Hukvaldy, now in its third summer.

Despite low pay and hand-to-mouth operating conditions, most Czech musicians are still sufficiently enamoured of democracy to feel confident about the future. They see themselves as middle-Europeans, and want to swim with the currents of European culture. Belor sums up this feeling when he says foreign influences were always welcome in Prague, and they helped to shape Czech tradition. Defending his orchestra's recent choice of an Italian, Gaetano Delogu, as chief conductor, he says "we want to discard the mantle of being 'only Czech'. This means developing our international qualities, but keeping the Czech soul."

Perhaps reports of the imminent demise of a distinctive Czech culture are exaggerated. Petr Eben, one of the few internationally renowned Czech composers, believes the current neglect of native tradition is caused partly by lack of money, partly by over-reaction. "We're overwhelmed by American films on television now, whereas there used to be only Russian. The pendulum always swings too far, and it will eventually come back to the centre. There were always periods in Czech history when our native culture suffered, but it never died. We're in a transitional phase. When the economy picks up, Czech culture will benefit and be accorded its true value."

Karnéus takes big prize in Cardiff

If it had not been for the US Open golf on Saturday night, television audiences would have been able to watch the final of Cardiff Singer of the World live. It makes a difference even in opera, where the tension before the top notes is as nail-biting as at the deciding putt on the 18th green.

The winner for 1995 was the Swedish mezzo-soprano Katarina Karnéus, who looked touchingly overwhelmed as she came out to accept her prize. First place brings with it a modern trophy of tangled metal, £10,000 and the usual recital engagement, but the winnings that matter come from the prestige associated with the competition. Cardiff has done well on that score. Since it started in 1983, the Cardiff Singer of the World has dealt one or two big winners every time it has shuffled the pack.

In one renowned final Dmitry Hvorostovsky and Bryn Terfel found themselves locked in the battle of the baritones for first prize and even the losers included two others who now have international careers. The competition has managed to create a crescendo of success in which there have been more winners than just the singers. BP has stepped in with substantial sponsorship and nightly TV coverage has ensured enough airtime for interested parties to get a look-in.

In between the heavily-edited extracts of this year's heats we had postcard views of Cardiff, the inevitable plug for the proposed Cardiff Bay Opera House (Millennium Fund cash still pending) and enough chat by TV personalities to make one forget that there was actually any singing going on. The most pointed comments often came from members of the public, including one woman who declared herself "flabbergasted" by the judges' decision after the third heat.

She had been taken by the singing of the contestant from Chile, a tenor who had just set the hall alight with Puccini's "Nessun dorma", admittedly a sure-fire hit with any audience these days. But there was a point in what she had to say. It takes a special kind of art for a young and probably inexperienced singer to come out cold from the contestants' waiting-room and fire up an audience – as we were reminded at the final on Saturday.

By this point the original 25 singers, each from a different country, had been reduced to five. All the Latin entrants had gone, which was a shame, as we were left with a selection of cooler personalities from chilly Northern countries: Scotland, Canada, Finland, Sweden and Russia. I felt strangely impartial at the end, as it was a very close call and none of them had stirred that decisive last ounce of enthusiasm.

Katarina Karnéus sang next to last and won many supporters in the hall for the unaffected appeal of her singing. The 29-year-old mezzo has already sung Rossini's *La Cenerentola* for Welsh National Opera and it was probably the final scene from that opera that clinched her prize. She has fluent coloratura and made music with it, not merely vocal fireworks. Her Carmen lacked magnetism, but a pair of Copland songs in contrast profited from her cool, instrumental purity of tone.

The song prize went to the Finnish soprano, Kirsi Tiihonen. After a couple of contestants who had tried to be the life and soul of the party, she brought a dramatic change of attitude, staring at the ground to summon concentration before announcing peremptorily that she was ready for business. She was also prepared to trust the music to set the mood, singing some mournful Brahms and Elsa's broad and calm solo from *Lohengrin*.

The other three finalists each had something to give. The Russian soprano Larisa Rudakova sang her coloratura Donizetti and Rossini arias rather formally, with impressive technical skill, but less involvement. Rosalind Sutherland from Scotland was at the other extreme, throwing herself into the same Donizetti aria with generous abandon. From Canada, Brett Polegato gave us a very beautiful, light lyric voice and quiet musicianship.

Richard Fairman

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERTS
Royal Theatre Carré Tel: (020) 320 2500
● Royal Concertgebouw Orchestra: Yevgeny Svetlanov conducts a Russian gala evening; 6.15pm; Jun 24
GALLERIES
Van Gogh Museum Tel: (020) 570 5200
● In Perfect Harmony, Picture and Frame 1850-1920: exhibition of 55 paintings in their original frames brought together by art historian Eva Mendgen. Artists include Van Gogh and Klimt; to Jun 25
OPERA/BALLET
Het Concertgebouw Tel: (020) 671 8345
● The Magic Flute: by Mozart. A semi-staged performance conducted by John Eliot Gardiner with the English Baroque Soloists and Monteverdi Choir; 7.30pm; Jun 20, 22
Het Muziektheater Tel: (020) 551 8922
● Die Meistersinger von Nürnberg: by Wagner. Hartmut Haenchen conducts the Netherlands Philharmonic Orchestra and soloists Jan Hendrik Rootering and Siegfried Vogel; 5.30pm; Jun 20, 23
THEATRE
Het Muziektheater Tel: (020) 551 8922
● Magic at 4am: by Mbongeni Ngema, conducted by Eddia Mathibe. A Civic Theatar Johannesburg production looking at peaceful co-existence in South Africa; 7.30pm; Jun 25

■ BERLIN

CONCERTS
Konzerthaus Tel: (020) 309 21 02/ 21 03
● Radio Symphony Orchestra Berlin: with violincellist Anne Gastinel. Jan Latham Koenig conducts Schumann and Janáček; 8pm; Jun 25
OPERA/BALLET
Deutsche Oper Tel: (030) 34384-01
● Der Rosenkavalier: by Strauss. Conductor Jiří Kout, production by Götz Friedrich; 7.30pm; Jun 22, 25

■ BRUSSELS

CONCERTS
De Munt/La Monnaie Tel: (02) 218 2211
● The Musicians of the Louvre: Marc Minkowski conducts Clarke's "Ode on Henry Purcell's Death" and Purcell's "Dido and Aeneas". Soloists include Benjamin Butterfield, Armand Gavriilidès, Brett Polegato and Véronique Geens; 8pm; Jun 21
OPERA/BALLET
De Munt/La Monnaie Tel: (02) 218 2211
● The Masked Ball: by Verdi. Conducted by Antonio Pappano and produced by Guy Joosten. Soloists include Franco Farina/Richard Margison, Edouardo Tumagyan/ William Stone and Elena Zaremba; 8pm; Jun 20, 22, 23, 24, 25 (3pm)

■ FRANKFURT

OPERA/BALLET
Oper Frankfurt Tel: (069) 23 60 61
● Lady Macbeth of Mtsensk: by Shostakovich. Conducted by Guido Johannes Rumstadt and produced by Werner Schroeter. Soloists include Valeri Alexejev, Ryszard Karczykowski and Christina Ciesinski; 7.30pm; Jun 23
● Raigen: by Boesmans. A new production conducted by Sylvian Cambreling and produced by Luc Bondy. Soloists include Pia-Marie Nilsson, Doug Jones and Elzbieta Ardam; 7.30pm; Jun 21, 25

■ GENEVA

CONCERTS
Victoria Hall Tel: (022) 311 2513
● Swiss Romanda Orchestra: with pianist Dominique Merlet. George Pehlivanian conducts Debussy, Ravel, Boulez and Stravinsky; 8.30pm; Jun 22
OPERA/BALLET
Grand Theatre de Geneve Tel: (022) 311 2211
● Orphee: by Gluck, French adaptation by Pierre Louis Molina. Conducted by Jeffrey Tate, produced by Andreas Homoki; 8pm; Jun 21, 24

■ LONDON

CONCERTS
Barbican Tel: (0171) 638 8891
● Peter Grimes: by Britten. Richard Hickox conducts the City of London Sinfonia and soloists Philip Langridge, Janice Watson and Alan Opie for a concert performance; 7.30pm; Jun 20
Royal Festival Hall Tel: (0171) 928 8800
● Philharmonia Orchestra: with pianist Paul Crossley. Esa-Pekka Salonen conducts Messiaen's "Turangalîla Symphony"; 7.30pm; Jun 20
● The Bach Choir: with the Philharmonia Orchestra, soprano Susan Bullock, mezzo-soprano Jean Rigby, tenor Richard Edgar-Wilson and bass Willard White. Sir David Willcocks conducts Medelssohn's "Elijah"; 7.30pm; Jun 22
GALLERIES
Royal Festival Hall Tel: (0171) 928 8800
● Dialogue in the Dark: visually impaired guides lead participants in total darkness through familiar surroundings; to Jun 30
Serpentine Tel: (0171) 402 0343
● Here and Now: exhibition celebrating the 25th anniversary of the Serpentine Gallery which looks at British art over the last 25 years; from Jun 19 to Aug 2
Whitechapel Gallery Tel: (0171) 522 7888
● Guillermo Kuitca: large scale installations by the Argentinian artist; to Jun 25
THEATRE
Barbican Theatre Tel: (0171) 638 8891
● Measure for Measure: by Shakespeare. Steven Pimlott directs Alex Jennings, Stella Gonet and Tanya Moodie; 7.15pm; Jun 19, 20
National, Cottesloe Tel: (0171) 928 2252
● Richard II: by Shakespeare. Deborah Warner's new production featuring Fiona Shaw as the king; 7.15pm; Jun 23, 24 (2pm)

■ MADRID

THEATRE
Teatro Infanta Isabel Tel: (041) 521 4778
● Twelfth Night: by Shakespeare. Presented in English by the English Theatre Workshop and directed by Gary Willis. Set in the 1970's and to popular music of the era; 8.30pm; from Jun 20 to Jul 2

■ NEW YORK

GALLERIES
Museum of Modern Art Tel: (212) 708 9480
● Elizabeth Murray: presents more than 100 drawings, paintings, prints and sculptures by approximately 70 women artists. The works were all created between 1914-1973 and includes works by Frida Kahlo, Liubov Popova and Nancy Graves; from Jun 19 to Aug 22
THEATRE
Plymouth Theater Tel: (212) 239 6200
● Chronicle of a Death Foretold: book by Gabriel Garcia Marquez, adapted, choreographed and directed by Graciela Daniele; 8pm; (not Mon)

■ PARIS

GALLERIES
Galerie Tendances Tel: (1) 42 78 61 79
● Georga Grosz: drawings by the German artist from 1920-32; to Jun 24 (not Mon)
OPERA/BALLET
Châtelet Tel: (1) 40 28 28 40
● Ballet Frankfurt: presents the William Forsythe choreographed "Eidos: Telos"; 8.30pm; from Jun 19 to Jun 24
THEATRE
Théâtre de Nesle Tel: (1) 46 34 61 04
● Zoo Story: by Edward Albee, directed by Bob Friel. Part of the English language theatre festival; 9.30pm; to Jun 24

■ WASHINGTON

CONCERTS
Kennedy Center Tel: (202) 467 4600
● National Symphony Orchestra: with pianist Orli Shaham. Christopher Hogwood conducts an all-Mozart programme which opens the Mozart Festival; 8.30pm; Jun 23
● National Symphony Orchestra: Christopher Hogwood conducts Mozart; 3pm; Jun 25
GALLERIES
National Museum of Women in the Arts Tel: (202) 783 5000
● Sogonisba Anguissola (1532-1625): a renaissance woman. The first showing in the US of 24 works. The exhibition includes intimate family portraits exemplifying the times in which she lived; to Jun 25
THEATRE
Folger Theater Tel: (202) 544 7077
● The Merchant of Venice: by Shakespeare. Commemorating the 400th anniversary of the play, this production is directed by Joe Banno; to Jun 25

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FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 14.00 of European business and the financial markets

17.30
Financial Times Business Tonight

Midnight
Financial Times Business Tonight

Why apathy must not prevail

PERSONAL VIEW

If the negotiations to open world markets in financial services were likened to a clock, it would be showing five minutes to midnight. But by the way many countries are approaching the talks, their morning alarms bave not even gone off yet.

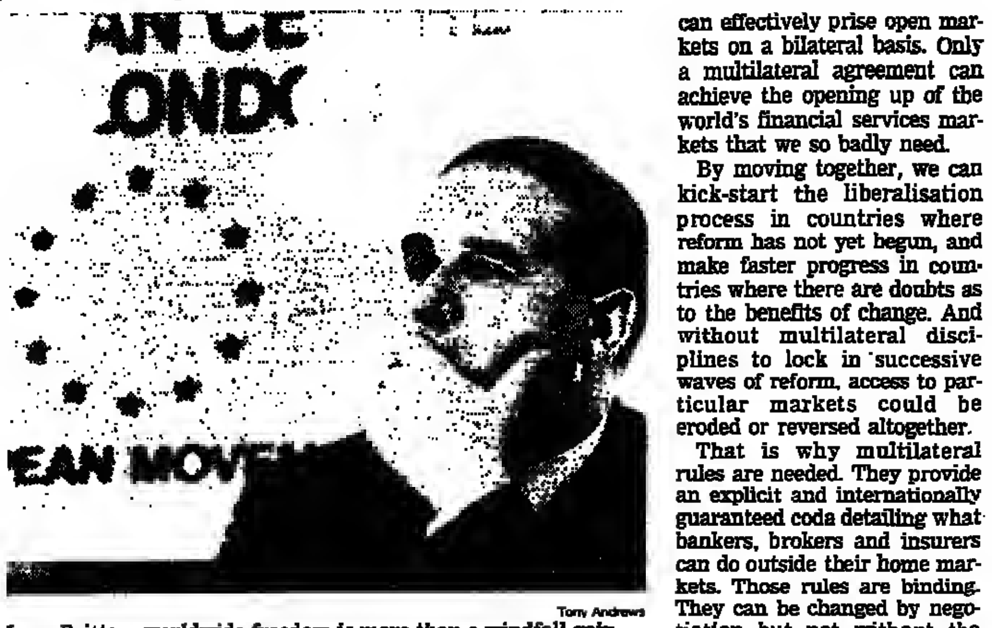
After the success of the Uruguay round of the General Agreement on Tariffs and Trade, too many countries seem to want a fallow period in the liberalisation process. Consolidation is their slogan, and the result is apathy. But apathy will cost the world dearly if it leads to tbe failure of the talks, which are taking place under the auspices of the World Trade Organisation, Gatt's successor. The deadline for agreement in these talks is tbe end of this month.

Behind the bland label "financial services", WTO members are taking on a huge challenge: the success or failure of these talks will demonstrate whether the world has the courage to unclog the financial arteries of the global market.

The negotiations cover banking, investment services - such as stockbroking and pension fund management - and insurance. Their purpose is to promote greater liberalisation of financial services markets and advance the interests of the banks and companies which supply these services. They are desigoed to improve access for new entrants and operating conditions for those already established outside their home markets.

But the benefits would extend far beyond those sectors. Free trade in goods is less and less useful oo its own. Traders need to take with them into oew foreign markets skilled bankers and insurers, and the long-term capital resources tbat only efficient stockbrokers or pensioo funds can bring.

Worldwide freedom for bankers, brokers and fund managers is more than a windfall gain for city slickers. By facilitating access to capital worldwide, it would create a substantial multiplier effect to the boost the WTO can give the world economy. If banks and pension funds are operating at optimal levels of efficiency, a country's investment capacity can be tapped more easily and foreign investment (the dominant source of new money in most emerging economies) would also take off.



Tony Andrews

Leon Brittan: worldwide freedom is more than a windfall gain

What is needed to achieve this? First, bankers need long-term security to plan for a sustained build-up of their commitment to new markets.

The package on the WTO table would transform the status of 90 per cent of international financial business from precarious to permanent, reducing risk and unlocking potential for new ventures. This is because the deal would guarantee virtually unrestricted access for new businesses and old to more than 90 per cent of world banking assets and deposits (worth $20,000bn each); more than 90 per cent of world insurance premiums ($2,000bn); more than 90 per cent of world stock market capitalisation (over $10,000bn); and more than 90 per cent of the market value of listed bonds (almost $10,000bn).

Behind the bland label of 'financial services', WTO members are taking on a huge challenge

In addition to this, the deal would bring new freedoms: restrictions on market access would be substantially reduced by new liberalisation offered during the negotiations.

In financial services - as with ordinary goods - trade liberalisation means greater choice and lower costs for the consumer. But the benefits of liberalising financial services markets would be particularly great. This is because hoth of the knock-on effect that the availability of cheap capital would have in other sectors and the extent of the restrictions at present in place. There are still many parts of the world in which access to financial services markets is either virtually closed or hedged around with crippling limitations.

What if the talks fail - an outcome which is not out of the question? Final offers are still being submitted. Analysing these and seeking extra concessions will take the talks to the deadline.

There are no halfway solutions. I am convinced that if we fail to secure a big package of multilateral concessions, in which foreign businesses are treated as favourably as domestic ones and discrimination between different countries is outlawed, offers will be pulled off the table in a mood of mistrust and resentment.

That would not only cost the world jobs. It would endanger the equally important WTO talks on telecommunications, due to be completed next spring. If these fail, the global information society will be no more than a shadow of our present ambitions.

Failure, in sum, would be no minor setback. It is a profound mistake to believe that even tbe most powerful countries can effectively prise open markets on a bilateral basis. Only a multilateral agreement can achieve the opening up of the world's financial services markets that we so badly need.

By moving together, we can kick-start the liberalisation process in countries where reform has not yet begun, and make faster progress in countries where there are doubts as to the benefits of change. And without multilateral disciplines to lock in successive waves of reform, access to particular markets could be eroded or reversed altogether.

That is why multilateral rules are needed. They provide an explicit and internationally guaranteed coda detailing what bankers, brokers and insurers can do outside their home markets. Those rules are binding. They can be changed by negotiation but not without the involvement of all countries involved. Even the reactions of a host government to a major financial crisis are defined and subject to worldwide surveillance and discipline.

Alongside such a system, bilateral levers are paltry tools, of more use for political posturing at home than for creating new business abroad. Operating on a purely bilateral basis implies that the country seeking to open a market must rely on threats.

Such threats will often lack credibility because developing countries are unlikely to he sufficiently anxious to enter the markets of developed countries. Even if they are, they may respond with counter-threats, or make at best a grudging shuffle in the direction demanded. This would be little to show for a lot of hostile effort. It is certain that the benefits achieved by such an approach would be less durable and significant than those accruing from a worldwide market-opening deal.

In short, a bilateral approach produces benefits too slowly and is liable to be counter-productive and damaging to tha broader multilateral trading system that we have so painstakingly created. The whip of reciprocity and threatened unilateral punishment is no solution. We have no option but to secure a multilateral deal - and only 10 days in which to succeed.

Leon Brittan

Sir Leon is vice-president of the European Commission.

Simon London examines strategies for a slowly improving UK sector

A creative property perspective

Flexello, the Japanese-owned manufacturer of castors for furniture, will shortly move into new purpose-built premises on the Slough Trading Estate west of London, the UK's largest industrial estate.

Yet celebrations at Slough Estates, the property company which is Flexello's landlord, are muted. While the new building is about 120,000 sq ft, Flexello is surrendering 130,000 sq ft of older space elsewhere on the estate. These old buildings will have to be redeveloped and re-let.

The pattern of companies surrendering old buildings as fast as they take new ones is being repeated across the UK property market. The result is a shortage of new offices, industrial units and warehouses, but an over-hang of older, unwanted space.

In areas such as the City of London, where big new office huildings are in great demand but extremely short supply, rents for the hest space are rising.

Rents for good retail locations are also showing reasonably strong growth, particularly for the best sites.

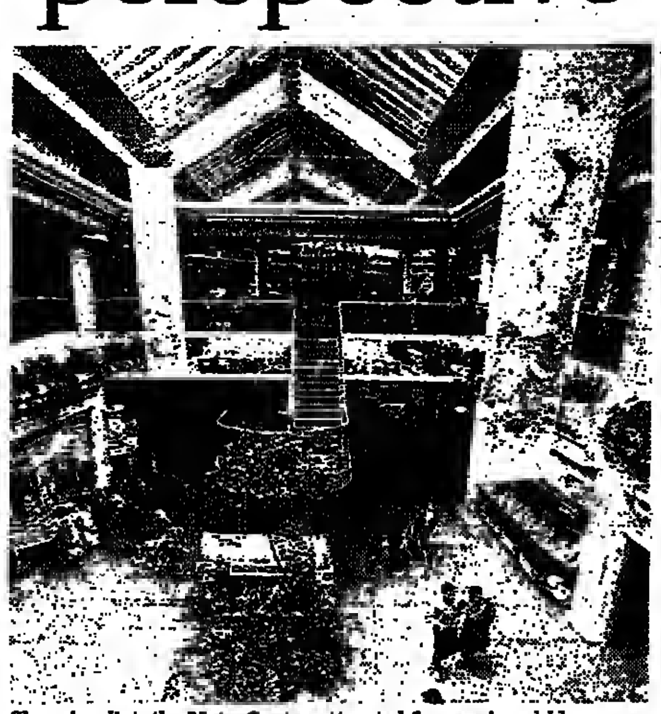
But, taking the property market as a whole, rents are showing no perceptible growth. Industrial property rents are actually falling, despite three years of economic growth.

The reluctance of companies to expand their net demand for business space and the consequent weakness of rents is worrying for commercial property owners.

"Normally at this stage of the economic cycle one would have expected industrial rents to be rising," says Mr Matthew Oakeshott, investment director of Olim, a fund management company.

Several factors are contributing to the patchiness of the UK property market recovery:

- The hectic pace of property development of the late 1980s left the market burdened with much more vacant space than normal when the economy started to turn up.
- The fragility of business confidence may be discouraging companies from signing commercial property leases; in the UK such leases are typically of 15 to 20 years duration, much longer than in most other industrialised countries.
- The big drop in capacity utilisation during the recession means that industrial companies can increase output without taking additional premises.



Shopping list: the MetroCentre attracted four serious hids

Industrial and office occupiers are also improving productivity by consolidating from a number of sites into a single, modern building.

"Companies have become much more efficient in their use of space," says Sir Nigel Mobbs, chairman and chief executive of Slough Estates.

But although demand for business space remains subdned, some fund managers argue that property is now good value as a financial asset. With rents static, property resembles a fixed-income investment such as a bond. The recent rise of bond prices is likely to push up property values. This is because professional valuers routinely refer to bond yields when calculating property values. When bond prices rise, property values tend to follow. This may encourage UK pension funds, which now hold an average of about 6 per cent of their assets in property, to add to their property portfolios.

Over the past three months bond markets have been strong and 10-year UK government bond yields have fallen from 8.75 per cent to 8 per cent. If this improvement is sustained, commercial property values could be on a gently rising trend by the year end.

"Bond yields have fallen by three-quarters of a point and the property market does not appear to have noticed," says Mr Alastair Ross Goobey, chief executive of Hermes, formerly PosTel, the post office and telecommunications pension fund manager. "Property will not be the best performing asset this year but people are too gloomy."

With the overall market depressed, there is intense competition among investors for properties where rents are rising - such as out-of-town shopping centres.

The Church Commissioners, which pays stipends and pensions to the Church of England clergy, attracted four serious bids for the MetroCentre in Gateshead, one of the UK's largest regional shopping centres, despite a price-tag of more than £300m - one of the highest ever for a commercial property in the UK.

It remains a moot point how quickly rental growth will spread from these hot-spots to the mainstream of the commercial property market. "It is difficult to put hand on heart and say that we are seeing the start of a real recovery in rents," says Mr Oakeshott.

Others in the market take a more optimistic view. Mr John Ritblat, chairman of British Land, the property investment company he has run since the early 1970s, says: "We are in a top-down market. Rent increases have already been seen for good buildings and this will percolate down as business confidence improves and the balance of supply and demand moves in favour of landlords."

But it could be that the second half of tha 1990s - like the period from the late 1970s to the mid-1980s - will turn out to be a period of little or no real growth in rents. If so, property investors will have to be much more selective about what they buy. "I would not be a general buyer of property through this cycle," says Mr Mark Gilbard, property analyst at Goldman Sachs.

One way of responding to relatively dull market conditions is for investors to buy undesirable properties which can be improved.

"We have to cast our net over management-intensive properties. No one is going to make money in this market by being a passive manager," says Mr Nick Leslau, chief executive of Burford, the fast-growing property company.

Burford's joint venture with Sega, the Japanese electronic games company, to build a virtual reality theme park at the Trocadero building in London's West End is an example of an attempt to take a mediocre building and turn it into something special.

Investors are also exploring areas of the property market outside the traditional categories of shops, offices and industrial buildings.

While market conditions are slowly improving, helped by lower bond yields, successful fund managers and property companies will have to be much more creative than in the bull market of the late 1980s.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

Australia has much to lose as republic

From Mr Dean A Smith.

Sir, Mr Paul Keating's proposals for an Australian republic ("Keating ignites republic debate", June 10) have done little more than expose the true republican agenda and further mobilise the energies of Australians everywhere who are opposed to his republican vision.

The debate about an Australian republic is less about the nationality of the head of state and more about suhstantial reform to Australia's constitutional heritage.

The republican vision seeks to undermine all those constitutional arrangements which have guaranteed Australians' political liberties and good government for more than 90 years; an effective and representative senate; an effective federal system of government with powers and responsibilities invested in state parliaments close to the people; an executive whose powers are somewhat curtailed by state governments and a senate.

Mr Keating's republican vision would change all this - with little or no tangible improvement in the basic liberties or quality of life of the Australian people.

Mr Keating has fallen victim to the poor vision of his "ivory tower" existence. Not only has he underestimated the depth of scepticism for his real republican ambitions, hut also the depth of energy and zeal of those who are prepared to fight the Australian republican cause at every crossroad.

Dean A Smith,
44 Wimpole Street,
London W1M 7DG, UK

More sober debate needed on balance of Emu benefits

From Dr Benn Steil.

Sir, The European Commission has resorted to the "machine-gun" approach in defending Emn - fire every plausible argument, and hope one hits the mark. As Martin Wolf ("On monetary sovereignty", June 12) nicely illustrates, they have wound up shooting themselves in the foot.

First they argued that an autonomous national monetary policy is a chimera in the age of global capital markets. Only big currencies are "autonomous" in big markets.

Tell it to the Swiss, who have seen their franc rise more than 15 per cent in after-inflation, trade-weighted terms over the past year. Analysts report that it is rapidly assuming an "anchor currency" role, as investors shed D-Marks in anticipation of its more inflation-prone successor: Ecu.

So, are the Swiss exercising monetary autonomy? Christopher Johnson (Letters, June 13) apparently thinks not, since he observes that foreign exchange markets have "sovereignty" over exchange rates. Well, I suppose they do, in the same sense that kumquat markets have "sovereignty" over kumquat prices. Yet this tells us nothing about the economic value of controlling one's own monetary policy instruments: discount rates, reserve requirements, opan market operations, credit controls and the like. If this monopoly power is worthless, then the UK is no more deluding itself than is the EU. Sadly, Mr Johnson, Big Money will be no more "sovereign" than Little.

But fear not. The Commission has an alternative argument for Emu. We actually need Emu *not* because national monetary policy is ineffective, but because it is *too* effective, as evidenced by the alleged intentional use of "competitive devaluation" to improve one's position in the single market. But if devalnation wera so effective and so desirable, then one would expect the Italians and the Spaniards to be fighting to retain their valuable monetary autonomy, while the Germans and the Swiss fight to hand theirs to a more laid-back Latin-style authority. Since neither is the case, this negative argument for Emu appears barely more plausible than the first.

It is time for a more sober debate about the delicate balance of costs and benefits implicit in Emu. Monetary policy does matter, politically as well as economically, in small states as well as big. Emu may or may not bring Europe a strong currency and stable prices hut, as the Swiss have shown, size won't mean a hill of roubles.

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From Mr Tim Melville-Ross.

Sir, It was precisely the kind of unsupported hypotheses and conjecture demonstrated by your correspondents (Letters, June 13) about the supposed benefits of adoption of a single European currency which prompted the Institute of Directors to publish a detailed analysis of the economic consequences of European monetary union for the UK.

The central issue is whether firm domestic monetary policy will be more appropriate to the specific needs of the UK economy, more credible and more effectiva in delivering low inflation, than a regime controlled by a European central bank.

We have three years' experience of a relatively successful UK anti-inflation policy. It is still being tested, but there are clear signs that the priority being given to the control of inflation is improving the UK's credibility, and we will have accumulated six years of evidence on which to base a judgment by the time the decision has to be taken to take part in stage three of Emu.

Charges of "innocent optimism" are, therefore, more appropriately applied to those who ignore the evidence and simply assume that a new European central bank will automatically and instantaneously achieve the same anti-inflation credibility currently ascribed to the Bundesbank. The weight of probability is that the federal structure of the ECB would make it softer on inflation and intensify the struggle for credibility.

The misconception which must be nailed is Lord Cobbold'e belief that if the UK entered into a single currency and found it unpalatable "it would always he possible to withdraw". The costs of establishing a single currency will be huge. But they would pale into insignificance compared with the cost of re-establishing a national currency. If the UK enters a single currency it would be foraver - and it would be irresponsibly misleading for anyone to suggest otherwise.

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Central issue behind share price reaction to ITT de-merger plans

From Mr Martin Deboo.

Sir, I fear thet Tony Jackson understates the argument against conglomerates in presenting ITT's recent rise in share price as a phenomenon of dysfunctional management ("Management Matters", June 15).

The central issue remains that of the supremacy of the capital market over the conglomerate in the effective diversification of risk. Merely identifying separate income streams, as ITT has done, is insufficient. Shareholders are still being obliged to accept a bundle of cashflows, rather than having the opportunity to purchase them separately and selectively according to their individual risk/return preferences. Thus the opportunity to match more effectively the diversity of ITT's businesses to the demand characteristics of the stock market is being prejudiced.

I would suggest that it is the discounting of this effect, rather than any verdict on the potential of the soon-to-be-de-merged ITT, that has been the main influence on the firm's increase in value.

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FINANCIAL TIMES

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Monday June 19 1995

G7's failure over Japan

"Jaw-jaw is better than war-war." On this sound principle, a summit of the group of seven leading industrial countries must be worthwhile. The meeting in Halifax, Nova Scotia, over the weekend even bad some positive achievements to its credit. Unfortunately, it also left a time-bomb ticking under relations between the US and Japan.

The star of this year's show was, by common consent, Mr Jacques Chirac. His appeal was fresh, but his approach was traditionally French. He decribed currency speculation as the "Aids" of the global economy. The comparison is obscene, but also has one merit. There is no cure for Aids and none for currency speculation either.

So where was there room for serious co-operation? One such area is reform of the international institutions, notably the international financial institutions. Mr Larry Summers, undersecretary at the US treasury for international economics, claimed agreements here made this "one of the most successful summits in recent years". The claim is justified.

Agreements were reached to double the International Monetary Fund's General Agreement to Borrow from $28bn (£18bn), improve regulatory co-operation in the aftermath of the Barings crisis, enhance IMF surveillance, increase policy transparency in its member countries and strengthen the focus of multilateral development agencies. All these ideas have merit. The G7 must now build on them, by seeking the agreement of other countries.

Yet talk of enhanced co-operation seems beside the point when the US is resolved on imposing penal tariffs on Japanese exports of luxury cars to the US, if the dispute over Japanese imports of cars and car-parts is not resolved by June 28. The subtleties of the US negotiation position were described by Mr Robert Rubin, US Treasury Secretary, yesterday. "If they can work out something that is totally consistent with the positions we have, then the issue will be resolved. If not, as the president has said, he will impose sanctions."

This particular dispute is doubly worrying. A country is not entitled to impose trade sanctions when it has not merely failed to prove its case but has not even attempted to do so. Yet the world's most important country apparently believes it is entitled to be prosecutor, judge, jury and executioner on its own behalf.

The dispute is also troubling because of what is happening in Japan. Its economy is in the grip of deflation, while the political system is equally in the grip of inaction. Such a conflict between economic necessity and political incapacity cannot endure. It is in the higher western interest that it is soon resolved in an effective, but also an internationally co-operative manner. US attitudes must make such a benign outcome less likely. Actions always speak louder than words. The contemplated US trade actions would, unfortunately, speak far louder than the lofty words uttered in Halifax.

Buyers' boycotts

Companies engaged in controversial activities are faced with militant consumers voting with their cheque books. Frequently it is a vociferous minority, not the majority, that is seeking to impose its will. This creates difficult choices for business. But one thing is certain: there is far more to success than merely obeying the law.

The current rash of boycotts is not surprising. If people dislike the idea of Shell sinking oil rigs in the sea, or condemn the indirect support corporate advertising gives to violent or sexually explicit television programmes, what better way to send this message than to shop elsewhere? Citizens have few other legitimate means to influence large corporations, which sometimes have greater impact on their lives than elected governments. Governments join in, too; New Zealand is reviewing two tenders for military equipment, to protest against France's planned nuclear tests.

It is hard for a company to ignore a sustained boycott. The German Green party managed to reduce sales at some Shell petrol stations by as much as 50 per cent one day last week, according to some reports. Meanwhile, the American Family Association, a Christian lobbying group, has accused Unilever of being "one of the leading sponsors of sex, violence and profanity" on American television. But its real target is the network television companies which it hopes would abandon the shows that advertisers shun.

Last week, Unilever's response was that it would "continue to exercise our right to advertise and make our own selections". No doubt, the company hopes not to be deemed as culpable as Time Warner, accused recently by Senator Robert Dole, Senate majority leader, of "marketing evil through commerce", for producing such films as Natural Born Killers and "gangsta-rap" music. Nor has Unilever sought to use imagery that infuriates moral protesters.

If the 1m or so claimed supporters of the American Family Association recognise these distinctions, the damage to Unilever's sales could be reduced. But image matters, especially in mass-consumer markets. If Unilever feels it is being damaged, it should move its advertising. Its business is selling soap powder; sponsorship is just a means.

Image matters not only to sellers of mass-consumer products. Shell is far too visible and exposed a company to be able to ignore the bad publicity it has been getting over the decision to dump the Brent Spar oil rig in the Atlantic. The decision is probably sensible, economically and even environmentally. But being right is not enough. Shell could be passive, by simply comparing the cost of proceeding with its present policy against the cost of changing it. Better, it could be doing a much better job of selling its case. Either way, governments must not allow protestors to halt a company's right to go about its lawful business.

Civil justice

Lord Woolf's report on civil justice is a thoroughgoing indictment of the English legal system. His recommendations, particularly those for speeding up the progress of cases, are commendable. But there must be scepticism that lawyers and the judiciary will prove willing or able to reform themselves to anything like the degree required.

The delays involved in the current system are scandalous. Contrary to popular wisdom, very little of the overall delay is caused by protracted court proceedings. The problem is the time required to reach a court at all. It takes more than three years on average for a High Court case to progress from issue to trial in London, and nearer four years outside London. Even in county courts, which deal with more straightforward issues, the average delay is 80 weeks.

Most cases never even reach a court, yet these are also caught up in the paper chase. Compensation cases typically take between four and six years to settle.

Delay is the enemy of justice for individuals and companies, but the friend of lawyers of all stripes. Unsurprisingly, most of the delay is caused by the lawyers. As Lord Woolf concludes: "In the majority of cases the reasons for delay arise from failure to progress the case efficiently, wasting time on peripheral issues or procedural skirmishing to wear down an opponent or to excuse failure to get on with the case."

Lord Woolf proposes to tackle the delays by three means. First, he wants to shift large numbers of less contentious claims to lower courts, notably by expanding the limit for small claims jurisdiction from £1,000 to £3,000. Second, he recommends strict timetabling and judicial supervision of cases, with early case management conferences presided over by a judge and far greater judicial discretion to limit the volume of documentary material exchanged between the parties. Third, he calls for more effective monitoring of the system as a whole, with a new post of Head of Civil Justice to be filled by a senior judge.

Few except the lawyers will object to any of this in principle. But the key recommendations to improve judicial oversight may never see the light of day because of their resource implications. Lord Mackay, the Lord Chancellor, was last week quick to agree to raising the small claims limit – which conveniently removes a large number of claimants from the legal aid system. But he said nothing about extra training or staff for judges, without which the judiciary can be relied on to bury the reforms in short order.

Appropriate incentives for lawyers will be critical to the success of Woolf. Judges must have powers to strike down cases at an early stage if timetables are not adhered to. They also need to be able to recover more of their own costs from the parties – which might help to provide the extra resources which the judiciary needs in the first place.

Insurers enjoy their place in the sun

Bermuda's growing market is becoming an increasing threat to other international centres, says **Ralph Atkins**

It is a convivial scene. More than 400 executives, some in shorts, sip champagne as a marching band parades outside the UK-appointed governor's residence in the sun-bathed Atlantic resort of Bermuda.

The occasion was the tiny island's biggest ever insurance conference earlier this month. Its scale and lavishness demonstrate Bermuda's growing international importance in the multi-billion-pound business of insuring the risks of the world's biggest companies.

A tax-free regime and an undemanding regulatory environment have encouraged growth in the capital base of the island's insurance industry to close to $30bn, with much of the expansion in the past few years. In some areas – such as insuring other insurance companies against natural disasters – Bermuda claims a world market share in excess of 20 per cent.

The island has now emerged as an increasing threat to other insurance centres – particularly London, which has seen Bermuda challenge its traditional role of providing insurance cover that the US market is unable or unwilling to provide. A survey by the Reinsurance Association of America, representing the companies which reinsure conventional insurance companies against excessive losses, showed that Bermuda has overtaken the UK as the biggest foreign provider of reinsurance cover to US companies.

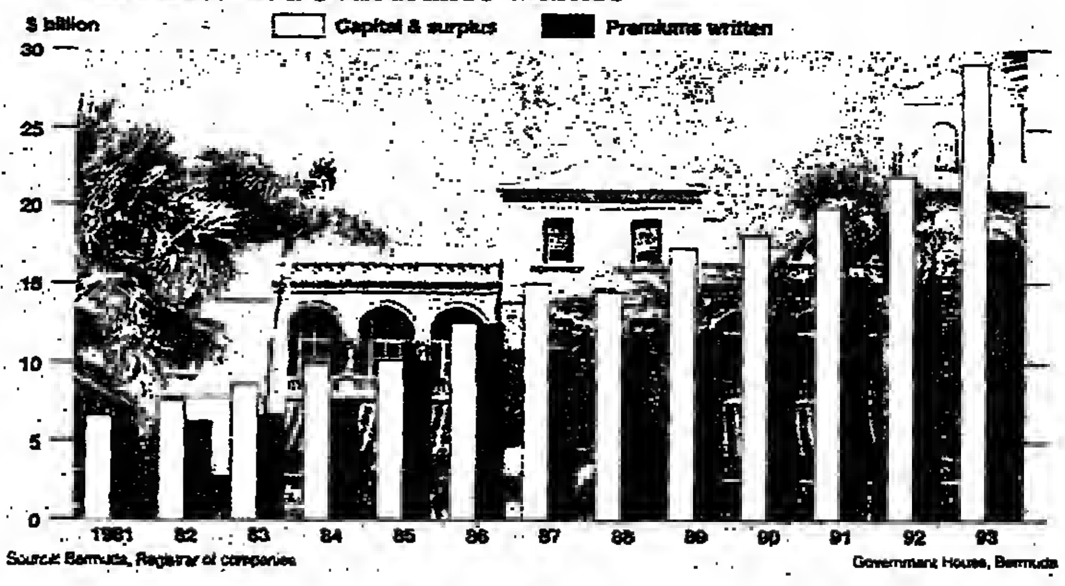
Mr David Saul, the island's finance minister, says that in the hotel lounges and club houses there is a "classic Lloyd's [of London] coffee house in the making".

Bermuda's rise has come in three stages. First, it became a popular base for so-called "captive" insurance companies – bodies set up by ordinary companies or institutions to provide dedicated insurance cover for the risks associated with their business. The island is now home to more than 1,000 of these "captive" companies, or about a third of the world total.

The advantage of setting up a captive in Bermuda is that reserves can be accumulated without paying tax and without having to comply with onerous restrictions laid down by US or European regulators.

The second phase came with the setting up in the mid-1980s of companies specialising in North American "liability" insurance, offering protection against risks associated with faulty products, for example, or pollution costs. This expansion was a direct result of the collapse of traditional markets for such products: Lloyd's was rapidly toughening policy terms after realising the scale of liabilities likely to arise on policies already sold – US asbestosis and environmental clean up claims largely explain losses of over £8bn at Lloyd's since 1988.

Set fair: Bermuda's insurance market



Source: Bermuda, Registrar of companies

Government House, Bermuda

Bermuda-based companies such as ACE and XL were able to carve out a profitable market by setting their own policy terms, including large retentions – the amount that companies have to find before the policy pays out. Now, says Ms Fiona Luck, of brokers Marsh & McLennan: "There is no question that US accounts look to Bermuda first to buy significant limits [insurance cover] in one place."

Most recently, Bermuda has become a rising force in the market for insuring insurance companies against catastrophes such as natural disasters. As with liability insurance, the driving force was a market failure: a succession of natural catastrophes in the late 1980s and early 1990s led to a reduction in catastrophe underwriting capacity at Lloyd's. More than $4bn has been invested in Bermuda's property catastrophe reinsurers since 1992.

Underwriters in other markets accept that the extra reinsurance underwriting capacity supplied by Bermuda is needed. Mr Robert Childs, an underwriter with Hiscox Syndicates at Lloyd's in London says: "After Hurricane Hugo in 1989, the European gales of 1990 and Hurricane Andrew in 1992, there were large rating increases but not really much new capital in the London market to take up the demand."

Funds available from the world's insurers are still insufficient to provide adequate cover against the most expensive catastrophes, such as a violent storm or an earthquake in the US, each of which might cause as much as $100bn of damage.

But while the extra capacity is needed, it is nevertheless depressing premium rates. This is because catastrophe reinsurers, including those in Bermuda, avoid overexposure to the big risks. That means they look for business outside the US and push down prices in those markets. Says Mr Childs: "Every broker you saw last year had a parrot on their shoulder saying 'Bermuda'. Brokers will use the threat of competitors to get a better deal."

Bermudian insurance companies are now keen to develop further new product lines. ACE, for example, has started selling aviation and satellite insurance. In part this diversification reflects the maturing of the Bermuda industry; having become established, companies are looking for new opportunities.

However, some industry observers believe the trend may also reflect shareholder demands for the industry to make their capital work harder. According to one senior Bermuda insurance executive, some local insurers "have got capital burning a hole in their pockets".

Capital invested in Bermudian insurance companies is underutilised, with the ratio of premiums to capital invested typically between 0.5 and 1. This is low compared with other insurance companies which often underwrite policies bringing in annual premiums worth several times the underlying investment. Bermuda-based insurers say this is intentional and often stems from a decision not to buy reinsurance for themselves because of the cost of the premiums and the danger that reinsurers might default. Having plenty of spare capital is also a plus point when convincing policyholders that an insurance company is secure.

Mr Michael Butt, chief executive of Mid-Ocean, a property catastrophe reinsurer, says there has been a "flight to quality" in insurance. The high capitalisation of Bermuda's companies means that if catastrophe losses on an unprecedented scale hit insurers "we would be the last to turn the lights out".

Underlining Bermuda's caution have been changes this year in its regulatory environment. Reforms intended to protect policyholders will see tighter regulatory oversight for some types of business.

There are other constraints on Bermuda's expansion. The small population and high living costs mean the emphasis will remain on capital-intensive – rather than labour-intensive – products. That means insuring large, sophisticated corporate clients against big risks that occur infrequently, rather than personal insurance. Only about 2,000 people are employed directly in Bermuda's insurance industry. Lloyd's employs about 11,000.

Bermuda-based insurers also recognise that there are many products in which other international insurance markets are stronger. Mid-Ocean, for example, plans to open a branch in London to reinsure marine, aviation and energy risks, while German and Swiss reinsurers have close contacts with their clients that a Bermudian insurer would find hard to break.

Mr Brian Hall, chairman of the island's Insurance Advisory Committee, says Bermuda "supplements and complements the capacity that London and US markets provide". Bermudian companies, for instance, provide reinsurance cover to Lloyd's syndicates.

Probably the biggest cloud on the horizon is the debate about whether the island should become independent from the UK. A "yes" vote in a referendum scheduled for August 15 would trigger fears of political instability, raising concerns that the favourable trading environment in which the island's insurance industry has prospered may become more hostile. But opinion polls suggest that most of the island's 60,000 population is against change.

In the meantime, the incentives for Bermuda's insurance industry to throw its capital strength about on the world stage are strong. In addition to the island's tax and regulatory advantages and the amount of capital available, insurers are free of the sort of liabilities on old policies which continue to blight Lloyd's. Says Mr Michael Palm, president of Centre Re, one Bermuda-based reinsurer: "We expect to be here for the long term."

We're all for balanced budgets now

MICHAEL PROWSE on AMERICA

Newt Gingrich and his Republican revolutionaries once again deserve our applause. They took an enormous political risk earlier this year by arguing that the federal budget must be balanced and by proposing big cuts in popular programmes such as Medicare, the health plan for the elderly. Bill Clinton opted for safety in his budget, avoiding cuts and projecting large deficits indefinitely.

That cynical strategy backfired. The Republican proposals were less unpopular than Democrats expected. In spite of reservations about cuts to specific programmes, polls show 80 per cent approval for the goal of a balanced budget. And so it was Mr Clinton who had to give way. In yet another startling volte face, he has embraced the main elements of the Republican strategy. He wants to balance the budget, but over 10 rather than seven years; he wants to cut health care for the elderly and poor substantially, although not as much as the Republicans; and he wants to cut taxes, although not on upper income Americans.

Independent experts say Mr Clinton's proposed spending cuts fall far short of what is required to eliminate deficits, even over 10 years. But this hardly matters: now that Mr Clinton is committed to a balanced budget, he is unlikely to veto a more substantive Republican plan later this summer. In next year's presidential campaign both political parties will be committed to zero deficits. This should tie the hands of the next occupant of the Oval Office.

Mr Clinton's shift makes political sense: rather than obstructing Republicans he is trying to present himself as a constructive, moderating influence. Economically, it is the best news in years. The vitality of any economy depends mainly on two factors: its flexibility – the degree of reliance on market forces; and its rate of saving and investment.

US growth mainly reflects the economy's impressive flexibility. American companies have greater freedom to innovate and restructure – and to sack workers – than rivals in lumbering economies such as Japan and Germany. They can (and do) respond more quickly to rapid shifts in consumer demand in an integrated global market. But the US has been unable to reap the full rewards of a flexible economy because of its chronically low savings rate.

Americans do crave instant gratification, but low savings are as much a reflection of public policy errors as national character. They reflect an appalling lack of budget discipline in Washington and a tax code that rewards borrowing. Mr Clinton's U-turn has changed the fiscal climate: for the first time in memory, the executive and legislative branches are both committed to a balanced budget.

With government less likely to drain funds from the private sector, the outlook for US savings is thus brighter than it has been for a generation. If Republicans also manage to win public support for a planned switch from taxes on income to taxes on consumption (which might take effect in 1997), prospects for savings could become rosier still.

I suspect that many observers outside the US are not keeping up with the pace of change. The bipartisan commitment to zero deficits is the third phase in the rejuvenation of the US economy. The high dollar of the mid-1980s triggered a beneficial wave of restructuring in manufacturing industry. That was followed in the early 1990s with comparable efforts to boost productivity in private service industries. The final phase – sweeping reforms to reduce the size, and improve the efficiency, of the public sector – is now under way.

The benefits of these changes may not be immediately apparent. Economic growth has slowed sharply because the Federal Reserve sensibly tightened monetary policy to prevent inflation accelerating. It is too soon to be sure whether the slow down is an "inventory correction" or a mini-recession, although the former seems more likely. But looking beyond these short-run cyclical strains, the economic outlook is exceedingly bright. If domestic savings do rise, the US seems bound to become an even more dominant player in global markets. Flexibility plus savings is an unbeatable combination.

Nor should investors fear that higher savings will depress the dollar. Dire warnings to this effect reflect the short-term mental horizons of US academic economists.

It is not true, even in the short run, that a trade deficit cannot decline unless the currency weakens; such an adjustment often occurs through slower growth of consumption, and hence imports. Smaller budget deficits may lead to somewhat lower US interest rates. But this need not depress the dollar: investors buy equities as well as bonds. In any case, if the fundamentals are encouraging, low interest yields do not depress currencies – because holders are compensated by the expectation of future appreciation. Think of the D-mark and the yen.

Taking a long view, if investors expect a higher US savings rate, they should scale back projections of future trade deficits. They should expect faster US productivity growth, smaller increases in unit labour costs and hence lower inflation. And they should no longer fear that a future administration would stoke up inflation to reduce the real burden of an unsupportable debt. For all these reasons, substantial currency appreciation seems probable. The era of the hard dollar may be dawning.

OBSERVER IN SOUTH AFRICA

Still trying hard to win

■ It's not all blood, sweat, and balls for the international captains of industry in South Africa for the Rugby World Cup. One in particular might have other things on his mind – a $50m-plus investment.

A notable rugger player himself – touring South Africa as an 18-year-old in 1955 with the British Lions – he went on to do rather well in business. Tony O'Reilly scored 16 tries in 1955 but since then became better known as president and chief executive of Heinz, the Philadelphia-based US food giant.

Evidently that trip four decades ago instilled lasting affection for South Africa. O'Reilly also happens to be chairman of the Dublin-based Independent newspaper business, which recently took a a 50 per cent stake in South Africa's Argus newspaper group.

Now it seems – in his capacity as baked bean merchant to the globe – O'Reilly is sampling local food companies. His aides insist Heinz is simply "actively pursuing an investment opportunity" – while the boss watches the rugby.

Licensed bestiality

■ It's nice to see old-fashioned amateurism in sport. So don't cast too beady an eye on the rugby. Observer tried pinning down rumours that one rugby star pockets £500 for each promotional appearance at the premises of his commercial sponsor.

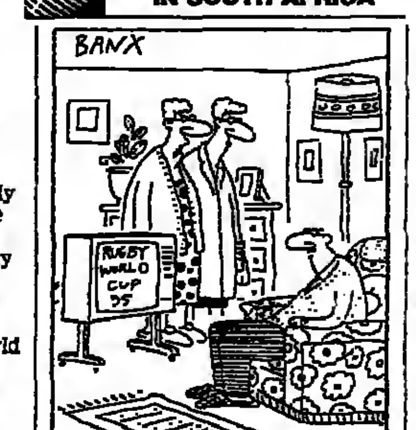
Easier said than done. The problem is sorting out who actually *runs* the show. Inquiries about the legitimacy of appearance fees get entangled in a complex web, neatly stitched together by sponsors, organising bodies and the players themselves. The International Rugby Football Board, Rugby World Cup Ltd, the International Marketing Group, and the South African Rugby Football Union all splutter and fall silent.

Balie Swart, the Springbok prop – to whom the Penguin Dictionary of South African Quotations attributes the following – sums it up: "Rugby is a game for hooligans, played by hooligans. I tell you, we're beasts."

Old habits die hard

■ Hopes of oodles of lovely reinvestment flowing back, after years of oozing the other way, are taking a bashing. The pin-stripe visitors taking time out from the rugby stands stare, agog, at the current quirky off-pitch games.

South Africa's business and trades unions are now at fierce loggerheads over workers' demands, which the week before last saw thousands of them bringing Johannesburg to a halt at the start



'He's always been a hooligan but lacked the ambition to make anything of it'

of a campaign of "rolling mass action".

Business has retaliated by running union-bashing advertisements, and David Brink, chairman of the powerful lobby, Business South Africa, reckons his members would rather "take a six month strike" than cave in to union pressures.

Meanwhile chief Mangosuthu Buthelezi and the ANC are tussling over provincial parliaments in Natal; and the National Party in control of the Western Cape is doing its utmost to prevent white middle class suburbs from having to foot the tax bills for black shanty areas. Quite like old times.

High flying birds

■ Official sponsors to the tournament are each thought to have coughed up as much as £2m for the privilege. In return they get plenty of exposure for their companies – and tickets to the games, including the final.

One sponsor, the Scotch whisky brand Famous Grouse, has found room for only 50 of its customers. How come? After all, Ellis Park stadium holds more than 62,000. "It's all we have room for," says Famous Grouse. Room, that is, in the Boeing 707, chartered from a Middle East oil sheikh for the flight from the UK.

Conventional 707s of course seat many more than 50; but this one is luxuriously modified, with ample leg room, showers, and meals served in a proper dining room. Nothing much to grouse about really.

Friendly family

■ Rugby is a family business for Louis Luyt, president of the South African Rugby Football Union and chairman of the company that owns and runs Johannesburg's Ellis Park stadium, venue for next Saturday's final.

Son-in-law Rian Oberholzer is the SARFU tournament director. He is also the manager and a director of Ellis Park. Luyt's son, Louis junior works for Ellis Park on the marketing side. Daughter Corlia is a lawyer with Megapro Marketing, a company whose responsibilities include looking after the Springboks' trust fund.

Is Megapro's managing director, George Rautenbach, by any chance related to Louis Luyt? "No," says a helpful secretary: "They're just very good friends."

Bid for the ball

■ Who is the odd man out: President Nelson Mandela, deputy presidents FW de Klerk and Thabo Mbeki, ANC secretary general Cyril Ramaphosa and Springbok rugby captain Francois Pienaar? Mandela is the only one not to have played rugby.

But they have all signed the FT World Cup rugby ball, also expected to be signed by England captain Will Carling, which Observer is auctioning. Proceeds will be split between the fund for Max Brito, the Ivory Coast player paralysed during the tournament, and the Canon Collins Educational Trust for Southern Africa, which for 14 years has been assisting black students.

The highest bid received by Friday June 30 wins the ball. Bids by fax to: *(44) 171 873 3926*, or by mail to Observer at the usual FT address.

FINANCIAL TIMES
Monday June 19 1995

Shell pledges to go ahead with plan to dump Brent oil platform

Row over group's action escalates as filling station boycott grows

By Michael Cassell, Business Correspondent, in London

Shell, the Anglo-Dutch oil giant, insisted last night there would be no last-minute change in plans to sink the Brent Spar oil platform, which today will approach its dumping site 150 miles off the west coast of Scotland.

As the flotilla towing the redundant platform headed through stormy seas, the controversy surrounding Shell's decision cootinued to escalate. While the British government again defended Shell's actions, opposition parties joined calls across Europe for a boycott of Shell filling statioos.

But Shell said the protests would have no effect on its plans. "We are on course and still going ahead. It is absolutely the right thing to do in terms of the environment." Shell said it expected to sink the platform "in the middle of the week", although it stressed bad weather could upset the timing.

Two members of Greenpeace, the environmental protest group, will also have to he removed from the platform before Shell uses explosives to sink the rig.

There could be further confrontation at sea today after Greenpeace's decision to send an ocean-going tug to intercept the flotilla as it nears the dump site.

Two Greenpeace members will have to be removed from Brent Spa

The Civil Aviation Authority disclosed yesterday that the pilot of the chartered helicopter which dropped the Greenpeace protesters on to the platform last week could face prosecution. Officials are studying allegations the helicopter had no registration markings and that it might have put lives at risk.

Greenpeace, which says the boycott of Shell filling stations on the continent spread to parts of the UK over the weekend, is using national newspaper advertisements today to demand the company accepts its corporate responsibilities. "The day Shell sinks the Brent Spar, Shell's reputation sinks with it," the advertisements say.

Mr Tim Eggar, UK energy minister, defended Shell's decision and attacked Greenpeace for "grossly exaggerating the problem". He said dismantling the platform on land, as protesters wаre demanding, would cause "very significant environmental damage".

Mr Frank Dobson, Lahour's environment spokesman, and Mr Matthew Taylor, his Liberal Democrat counterpart, called on British motorists to join the filling station boycott.

They were joined yesterday by leaders of Germany's Evangelical Church who called on its members to support the protest.

The church, which was holding its annual meeting in a Hamburg sports stadium, said companies had a responsibility to the environment and had no right to abuse their powers and influence.

The 80,000 crowd cheered and applauded loudly when the Evangelical leadership said it would stand firmly behind any boycott of Shell filling stations and its products. Over 40 per cent of Germany's 70m population are members of the Protestant church.

The controversy has forced the company to postpone this week's Better Britain environmental awards. A letter from the company to guests says it has it has "very reluctantly" decided to delay the event because of an "inappropriate" atmosphere in which to celebrate the awards' environmental achievements.

Editorial Comment, Page 15

THE LEX COLUMN

US bond jitters

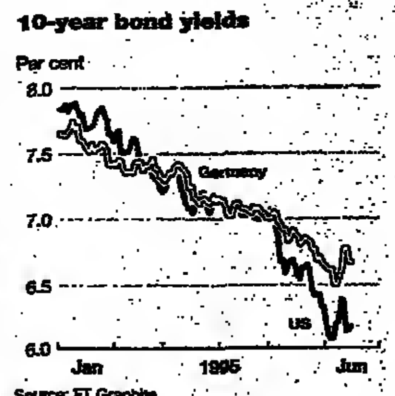
US investors may have been rather tardy in picking up on signs that the US economy was slowing at the end of last year, hut the subsequent bond market rally now looks overdone. A spate of weak economic indicators and an unexpected surge in demand may have tipped the balance too far. Intervention to support the dollar left central banks flush with dollars, which they then used to huy US Treasuries. Wrong-footed fund managers were then forced to buy into the rally, fuelling further price gains.

The short end of the market looks particularly expensive. To justify current yields on two-year bonds, interest rates would have to fall by as much as 100 basis points (1 percentage point) by the end of the year. This is not impossible, hut it implies a rapid ecooomic slowdown.

Furthermore, the gap between German and US bond yields now looks too big. Ten-year US Treasuries are yielding 50 basis points less than German bonds. At the start of the year they were yielding 20 basis points more. Although Germany's economic cycle lags the US, the Bundesbank's stronger record on inflation suggests that such a gap is not justified. This does not mean there is a strong case for buying German bonds outright.

The US market is likely to continue to set the direction for bond market trading. But a correction would probably spark a similar hut smaller movement in Germany, causing the gap to narrow. The US market is feeling nervous, and may be on the look out for some relatively strong economic data to justify a correction.

10-year bond yields



Source: FT Graphite

Tokyo brokers

When Ford and General Electric delist from the Tokyo Stock Exchange the next fortnight, the number of foreign listings in Japan will have fallen hy one third from the 1991 peak. This rams home how Tokyo's complex and costly bureaucracy, combined with the world's highest rents, have shattered its aspirations to become Asia's regional financial capital.

Its role as an international capital market is also under fire. The European Business Community, the Tokyo-based lobby group, recently called for rapid rationalisation of the market's regulations. Foreign securities houses are cut out of privatisations, shunned from underwriting syndicates and can only take a small slice of Japan's vast pension fund market – to name but a few gripes.

Japan would benefit from opening its markets. More competition in underwriting would reduce industry's cost of capital. Liberalising fund management would give domestic investors greater choice; Japanese institutions currently offer narrow ranges of mutual funds and the like. It might also boost investment returns.

Nonetheless, deregulation will be a slow process. In the meantime, Japan will feel little pity for the foreigners. While nearly all domestic brokers are losing money, most foreign ones are still profitahle. Moreover, the most obvions deregulatory demand – removing high fixed brokerage commissions – is conspicuous hy its abseoce from EBC recommendations. Foreign houses are happy to call for competition, except when it cuts into their own profitability.

Taxing demergers

The recent decisions hy ITT and Sandoz to demerge illustrate a growing consensus about the benefits of focus. Diversification into unrelated husinesses is not the joh of managements. Shareholders can decide for themselves whether to diversify their portfolios.

Among the most significant potential barriers to demergers is tax. Thorn EMI specifically mentioned the issue when it shelved demerger plans last year. The danger is that it proves impossible to structure the deal in a way that prevents the company and shareholders receiving heavy tax bills. If tax authorities believe a demerger is simply a disguised disposal they will impose capital gains tax. Similarly, if the issue of shares in the demerged company is viewed as a dividend, it can become taxable.

There is a real risk that such taxes can render demergers uneconomic. Tax can justify a delay in demerger while a company reorganises to minimise the implications. Thorn EMI has justifiably spent a year trimming the potential tax burden of demerger from £150m to £50m. One of the crucial decisions for capital gains tax is deciding which company, old or new, should own which overseas subsidiaries.

Tax can never be eliminated, particularly in foreign jurisdictions where rules are less amicable to demergers. Bnt managements which claim tax considerations are hlocking such operations are heing disingenuous. Even complicated international [illegible] can be completed tax-efficiently. That has been demonstrated by Hanson's demerger of its US operations. Parting need not be such sweet sorrow.

Small companies

The Alternative Investment Market launched by the London Stock Exchange today is the most promising attempt so far to create a viable stock market for small UK companies. After earlier false starts, the exchange seems to have got the regulatory balance about right. Still, only 10 companies will be listed on Aim initially.

The winding up of the exchange's two existing mechanisms for trading small company shares in the next 18 months will provide some impetus for others to join. The danger is Aim will attract only companies that want to estahlish more liquidity in their shares. If this happens, it will have failed in its second goal of providing a new source of financing for small companies. Raising equity is complex and expensive for small companies, and so requires active promotion by the exchange. The good news is the exchange has a dedicated management team which appears to be taking the task seriously.

The exchange's record on such projects is unimpressive. But its incentive to get it right is growing stronger, as its monopolistic position in the UK stock market is challenged. Aim itself could soon face competition from a new pan-European market for growing companies, modelled on the successful Nasdaq market in the US which already attracts some UK companies to its ranks. Given its head-start and the inherently domestic investor base for small companies, Aim should be able to stake out a patch for itself. Failure to do so would not augur well for the exchange, as it squares up to competition in its core market.

Hopes rise for hostages in Chechnya

Continued from Page 1

weekend at the height of the hostage crisis and about two bungled Russian attempts on Saturday to storm the hospital where the hostages were held.

Mr Chernomyrdin, who has cultivated a dove-like stance since the war began in Chechnya six months ago, puhlicly promised Mr Basayev an immediate end to Russian military operations in Chechnya and ordered peace talks in Grozny, the Chechen capital.

Serious differences remain between Mr Chernomyrdin and the Chechen guerrillas. Mr Chernomyrdin yesterday demanded the immediate release of all the hostages, hut Mr Basaysv, speaking through Chechen intermediaries, said he wants to take some of the hostages, and a group of Russian MPs who have travelled to Budennovsk to participate in talks, with him when he and his fighters retreat to more secure bases in Chechnya.

However, the televised talks between Mr Chernomyrdin and Mr Basayev mark a radical departure from Moscow's previous, uncompromising attitude to the Chechen conflict and could be the tentative beginning of a negotiated settlement to the crisis.

Threat to leader's hopes of easing party turmoil

Major to face backlash from pro-European Tories

By Kevin Brown, Political Correspondent, in London

UK prime minister Mr John Major's hopes of shoring up his leadership hy calming Conservative turmoil over Europe will be undermined today hy calls from Tory memhers of the European parliament for a hig increase in the powers of European Union institutions.

In a series of papers to he launched in London, the MEPs will enrage Eurosceptic MPs hy urging much greater powers for the European parliament and suggesting the transfer of control over immigration and external horders from national governments to the European Union.

The proposals, intended to counter demands from Eurosceptic Tories for disengagement from the EU, amount to a challenge from the party's pro-European wing to Mr Major's strategy for next year's intergovernmental conference on EU integration.

The proposals will deepen the Conservative rift on Europe, and complicate the prime minister's attempts to fight off rightwing criticism of his leadership by ruling out further increases in EU powers at the IGC.

Mr Major spent yesterday at home in Huntingdon, Cambridgeshire, relaxing after the G7 meeting in Canada, and mulling over ways of ending the week-long bout of speculation ahout his leadership, which shows no sign of ending.

Amid growing Eurosceptic fears that a leadership contest would be won hy Mr Michael Heseltine, the pro-European trade secretary, senior Tories warned that the argument over Europe and Mr Major's position was damaging Tory prospects.

Lord Parkinson, the Thatcherite former party chairman, urged cabinet ministers to end the speculation hy pledging themselves not to stand against the prime minister.

Mr Michael Portillo, employment secretary, warned the party to pull itself together or risk losing the next general election.

The MEPs' demands form part of a concerted attempt by pro-European Conservatives to fight back against what they see as the growing influence of Eurosceptic MPs on government policy.

In an introduction to the papers, Mr Tom Spencer, chairman of the 18 Conservative MEPs, says "parliamentary control lost at national level should be regained at European level".

Proposed increases in European parliament powers include:

- Extension of MEPs' rights to hlock EU legislation, through the co-decision procedure involving the European parliament and the Council of Ministers, to areas such as transport, environment, development and discrimination.
- Use of the co-operation procedure (weaker form of parliamentary control over the Council of Ministers) to cover legislation on the common agricultural policy, external trade and competition policy.
- Greater control over the European Commission, including the right to summon officials and to dismiss individual commissioners if two-thirds of MEPs agree.
- The right to approve changes to the EU's founding treaties.

The papers say that the justice and home affairs pillar created hy the Maastricht treaty, under which a range of cross-horder issues are dealt with by national governments outside normal EU procedures, is not working.

Support premier or lose election, MPs are told, Page 6

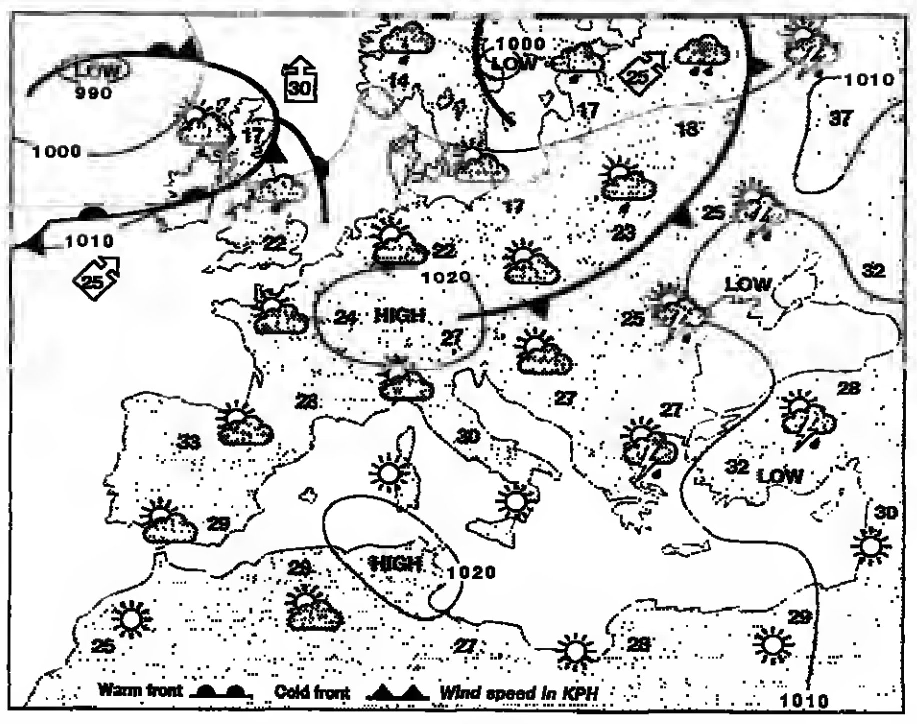
FT WEATHER GUIDE

Europe today

An active low pressure area over the Baltic will produce rain over Finland and Lapland, while a ridge of high pressure over Norway will give sunny spells over southern Sweden and Norway. High pressure will strengthen over France and the Alps promoting a significant improvement in conditions over most of western Europe. The Low Countries, eastern England and France will have sunny spells and temperatures exceeding 20C. The northern UK will have showers. Ireland will be cloudy with light rain. Spain will have sunny spells with isolated showers. Italy and southern Greece will have s lot of sun with temperatures between 25C and 30C. Heavy thunder storms will develop along a strip stretching from northern Greece into European Russia.

Five-day forecast

Central and western Europe will become cooler, causing rain on Wednesday. Warmer and more settled conditons will follow at tha end of the week. Northern Europe will be changeable with occasional heavy rain. The Mediterranean will be aunny and warm with thunder storms over eastern Spain tomorrow.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	40
Accra	thund	29
Algiers	sun	29
Amsterdam	fair	21
Athens	shower	30
Atlanta	thund	29
B. Aires	fair	12
B.ham	shower	23
Bangkok	thund	36
Barcelona	fair	26
Beijing	sun	32
Belfast	rain	20
Belgrade	shower	27
Berlin	fair	21
Bermuda	fair	28
Bogota	fair	21
Bombay	thund	34
Brussels	fair	23
Budapest	fair	26
C.hagen	fair	17
Cairo	sun	35
Cape Town	fair	20
Caracas	thund	31
Cardiff	shower	20
Casablanca	fair	24
Chicago	fair	30
Cologne	fair	24
Dakar	sun	29
Dallas	sun	34
Delhi	sun	46
Dubai	sun	39
Dublin	rain	21
Dubrovnik	fair	27
Edinburgh	rain	20
Faro	fair	25
Frankfurt	fair	26
Geneva	fair	28
Gibraltar	fair	27
Glasgow	rain	19
Hamburg	fair	20
Helsinki	shower	18
Hong Kong	shower	31
Honolulu	sun	31
Istanbul	shower	28
Jakarta	shower	32
Jersey	fair	16
Karachi	fair	36
Kuwait	sun	46
L. Angeles	sun	25
Las Palmas	fair	27
Lima	fair	21
Lisbon	fair	25
London	fair	24
Lux.bourg	fair	23
Lyon	fair	26
Madeira	shower	23
Madrid	fair	34
Majorca	fair	29
Malta	fair	27
Manchester	shower	21
Manila	fair	35
Melbourne	fair	13
Mexico City	shower	22
Miami	fair	33
Milan	fair	28
Montreal	fair	32
Moscow	thund	24
Munich	fair	25
Nairobi	fair	25
Naples	fair	28
Nassau	fair	31
New York	fair	33
Nice	fair	26
Nicosia	sun	34
Oslo	fair	21
Paris	fair	26
Perth	fair	21
Prague	shower	22
Rangoon	shower	29
Reykjavik	fair	12
Rio	shower	26
Rome	fair	28
S. Frsco	fair	21
Seoul	fair	27
Singapore	fair	33
Stockholm	shower	17
Strasbourg	fair	26
Sydney	shower	15
Tangier	fair	28
Tel Aviv	sun	34
Tokyo	shower	26
Toronto	fair	32
Vancouver	shower	17
Venice	fair	26
Vienna	fair	25
Warsaw	fair	20
Washington	fair	31
Wellington	fair	10
Winnipeg	fair	31
Zurich	fair	25

FINANCIAL TIMES
COMPANIES & MARKETS

MARKETS THIS WEEK

JOHN PLENDER:
GLOBAL INVESTOR
Some of the world's leading institutional investors have been willing to flex their muscles in public recently. Such activism can generate enhanced economic returns and the growth in the percentage of shares held by institutions across the world suggests it is likely to increase. A more difficult question is whether pressure on corporate governance can be applied on a cross-border basis. Page 21

STEPHANIE FLANDERS:
ECONOMICS NOTEBOOK
Is Japan on the brink of suffering 1930s style deflation? At first glance, the claim seems like scare-mongering. Real GNP in the US fell by 30 per cent between 1929 and 1933, while the absolute price level in the main industrial countries fell 27 per cent. The scale of Japan's problems bears little comparison, but some of the root causes are disturbingly similar. Page 21

BONDS:
American economic and financial health has led the way recently for European government bonds. As US Treasuries have roared ahead, European bonds have followed, even though the economic recoveries are much less advanced in Europe. Page 22

EQUITIES:
The Federal Reserve's Beige Book, to be released nn Wednesday, will be scrutinised lor hints on how central bankers see the economy. Meanwhile, the London equity market looks tired after a rally which has carried the FT-SE 100 Index 400 points higher since early March. Page 24

EMERGING MARKETS:
International funds are showing a flurry of interest in Poland's fledgling stock market. Page 23

CURRENCIES:
Foreign exchange markets are likely to remain on their guard, in spite of the communique from the G7 summit in Halifax, Nova Scotia, offering only fleeting reference tn currencies. Page 23

COMMODITIES:
The London gold price last week broke above $390 a troy ounce for the first time in six weeks. Page 21

INTERNATIONAL COMPANIES:
Generale Bank of Belgium appears to have emerged as the preferred bidder to take over the Dutch subsidiary nf Crédit Lyonnais, the French bank. Page 20

UK COMPANIES:
WPP, the advertising group, may move its domicile to the US following the furore over the proposed new pay package for its chief executive. Page 18

STATISTICS

BZW close to purchasing Wells Fargo Nikko

By Norma Cohen and Richard Wolffe in London

BZW, the investment banking arm ol Barclays, ls on the verge of huying Wells Fargo Nikko Investment Advisors, the US fund management group.

The deal, estimated to be worth between $500m and $700m, would transform the scale of BZW's fund management activities, currently managing around £50bn ($79bn) of assets.

Wells Fargo Nikko, a joint venture of the US bank and Japanese securities house, is ooe of the largest fund managers in the world, managing more than $160bn uf funds. If the deal goes ahead, BZW would become the world's largest passive fund manager. It would comfortably outstrip the UK's largest fund manager, Mercury Asset Management, which has about £63bn under management.

Wells Fargo Nikko has been on the market since April, when it said that it needed a buyer in order to expand internationally.

A senior Wells Fargo Nikko executive said the company wanted to double the size of its assets under management by the end of the decade. The company has taken the view that the globalisation of the fund management industry requires the firm to be either a large international organisation or a small boutique catering to a niche market.

Wells Fargo Nikko specialises in index-tracking, a low-cost strategy which shadows the performance of bond and stock market indices. The company's clients are predominantly US pension funds.

Since it confirmed it was seeking a buyer, the fund manager has been linked with State Street Bank as well as Barclays. It is thought that Wells Fargo Nikko was concerned about possible job losses if State Street took over.

Barclays Bank refused to commeut yesterday, dismissing reports of a deal with Wells Fargo Nikko as "market speculation".

Last month Barclays decided against bidding for, or forming a partnership with, a US investment bank. After a six month review, it decided to concentrate on reinforcing its US operations, which employ 1,500 people in New York. Mr Martin Taylor, Barclays' chief executive, is known to be sceptical about the value of many bank acquisitions.

The country is slowly regaining its confidence, says **Richard Lapper**

Mexico dusts itself down for the markets

Tony Andrews

Guillermo Ortiz, Mexico's finance minister: 'We are not saying we are out of the woods'

The gloom that bas engulfed Mexico since the country was plunged into financial crisis six months ago is slowly beginning to lift.

Last week's $300m eurobond issue hy Bancomext, a state-owned trade finance bank, was the country's first this year, and legal documentation ls now in place allowing Mexico to raise more money through other public bonds issues.

Mexico's rehabilitation among international investors still bas some way to go but the speed of the country's return to the capital markets has surprised the International financial community. "It is bappening much more rapidly than one could have expected earlier this year, and much quicker than after the 1982 deht crisis," says Mr Peter West, economic adviser at West Merchant Bank in London.

The Bancomext issue – a $300m two-year floating rate note – follows a uumber of international deals in recent weeks, signalling a gradual recovery of investor confidence. In April, Nacional Financiera (Nafinsa), another state-owned bank, raised $170m through privately placed hond issues, and Mexican horrowers have also been active in the short-term mooey markets.

Last month, Banamex, the country's largest private bank, raised $206m in a securitised deal placed privately with investors in the US.

The country has regained confidence as a result of developments in its domestic economy on the one hand and the hroader world economy on the otber. Underpinning its ecouomic progress is what Mr Guillermo Ortiz, the Mexican finance minister, describes as a "spectacular" turnaround in its external accounts.

Domestic consumption has slumped and the economy will contract this year. But helped by a 45 per cent devaluation of the peso, Mexico's manufactured exports bave surged since the crisis, contrihuting to a trade surplus of $1.3bn in the first fuur months of 1995, compared with a deficit of $5.7bn in the same perlod of last year. Ms Ingrid Iversen, senior economist at Morgan Grenfell in London, says the markets underestimated the flexibility of the Mexican Industrial sector.

Moreover, belped hy a multi-hillion dollar economic assistance package from the US, the IMF and the World Bank, Mexico appears to he tackling the problems of short-term indebtedness which belped precipitate the crisis in December. The number of outstanding Tesohonos (dollar-linked honds) has been reduced from $30hn to $10bn in the last five and half months and Mr Ortiz says the country has resources to meet a further payments hump of $6.7hn which falls due in July and August this year.

Changes in the international financiel climate have also brought benefits. The rally in US and European bond prices has led to a sharp fall in yields. And altbough these markets are still regarded as safe havens, investor interest in higher yielding debt such as that issued by emerging market countries has revived. Cut off from the capital markets earlier in the year, the governments and companies from many emerging markets are now slowly regaining access. Last month, for example, Brazil issued its first eurobond since the Latin American deht crisis in 1982, raising Y80hn.

Mexico, though, still has some ground to recover before it can tap international markets with the same ease and frequency – and at the same price – as it did two years ago. The prices of Mexican eurobonds issued by both government bodies and private companies have recovered in the last few weeks, after slumping to all-time lows in March. Bonds issued by government bodies yielded more than 15 per cent in mid-March, while yields on paper issued by Mexican companies rose to more than 25 per cent in some cases.

But the country is paying a relatively high price to raise fresh debt. Bancomext, for example, is paying 5 percentage points above the London inter-bank offered rate (the rate at which bank's leod to each other) to raise its $300m FRN. By comparison, during 1993, government-backed issuers such as Bancomext, Nafinsa, and Pemex, the oil company, issned bonds carrying spreads over US Treasury bonds of 165 to 232 basis points (a basis point is one hundredth of a percentage point). Last March, Pemex raised $250m at a rate of only 85 basis points above Treasuries.

Moreover, bankers say that the terms of the issue are defensive. Bancomext is raising two-year money hut investors bave an option to put (sell the bonds back to Mexico) after a year. During 1993, when Mexico's popularity among investors surged, government-backed institutions issued 11 bonds of five, six, seven and 10 years and one of 30 years.

Bankers predict that it could be some time before investors are hrave enough to buy longer-term debt issued hy Mexico.

"The Bancomext issue is a telling signal that the market has recovered and that there is a healthier tooe," says one senior US banker. "However you also have to take it with a grain of salt. Being ahle to do one deal doesn't mean you have regained access to the market as a whole."

Indeed, Mr Ortiz bimself is anxious not to overstate the achievement. He is pleased with the way Mexico has been ahle to regain favour among the US investment banks and says new sources of investor interest in the Far East are being tapped.

Overall though, the country, has still to "reconstitute its investor base" and doesn't want to go to the market with too many deals. Investor confidence has still be regained. "We are not saying we are out of the woods. We are not saying we have overcome the crisis. We have to be very cautious."

The World Bank is this week poised to approve the biggest single loan in its bistory as part of its backing for the multi-billion dollar support package for Mexico, writes Richard Lapper. It is expected that the ioan for $1hn – earmarked to bolster the beleagured local financiel system – will be approved on Thursday.

The World Bank is combining forces with the Inter-American Development Bank to provide up to $2.25bn in loans for Mexican banks, which have been hard hit hy had ioans, following the financial crisis earlier this year. The IADB is expected to provide $750m of this amount. Separately, the World Bank is also expected to approve $500m to fund social programmes.

The financial sector loans are to be channelled towards hanks whose capital deficiencies could lead them to suspend their husiness. Unless paid down, the loans will be converted into ordinary shares within a three to five year period and offered for sale either to the hanks' owners nr nn the markets.

Derivatives ruled out in BAe's fight for VSEL

By David Wighton in London

British Aerospace has ruled out using derivatives to underpin tbe value of any new bid for VSEL, the UK submarine builder.

BAe and its adviser, Kleinwort Benson, have explored a number of possibilities, including the issue of "contingent value rights", a type of derivstive whicb has not yet been used in a UK takeover hid.

But BAe has concluded that its variahle "trombone" rights issue has given it enough fire power to compete with GEC.

BAe has not yet decided whether to increase its cash and shares offer for VSEL, in response to GEC's 21.50p a share hid two weeks ago.

One potential problem is that hy offering more shares, BAe could put short-term pressure on its share price therehy reducing the value of its hid. By using contingent value rights, securities whose value rises if the price of the related shares falls, BAe could put a floor under the value of a new offer.

Contingeot value rights have been used in several recent hids in the US and are judged to have been an important factor behind Viacom's successful takeover of Paramount Communications.

A derivatives expert at a US-hased investment hank commented: "They have proved very powerful tools in the US, particularly for bidders who believe their share price will rise after a successful takeover. Assuming tbere are no regulatory problems it is only a matter of time before they emerge in Europe."

Altbough several investment banks are understood to be looking at the use of contingent value rights in London, City regulators have not yet ruled on their legality.

This week: Company news

BRITISH STEEL

Profits surge after years of dour cost control

Today's annual profits from British Steel will show the impact of rising volumes and prices after years of dour cost control.

Profits are expected to have surged to about £500m ($795m) from £80m in its last financial year.

That is roughly twice what the market was expecting 12 months ago and reflects the series of price increases British Steel has pushed through since then.

The improvement will be particularly impressive at Avesta Sheffield, the stainless steel producer where British Steel has 49.9 per cent, and et UES, the engineering steels subsidiary where minority partner GKN was bought out in February.

However, some analysts believe British Steel may soon see a pause in its growth with talk of stockbuilding in the industry and a likely slowdown in European car production.

The company is likely to face questions about the recent comments from Thyssen, the German steel producer, that European steel prices have peaked.

British Steel may point out that, thanks to the fall in sterling against the D-Mark, its prices still have some catching up to do.

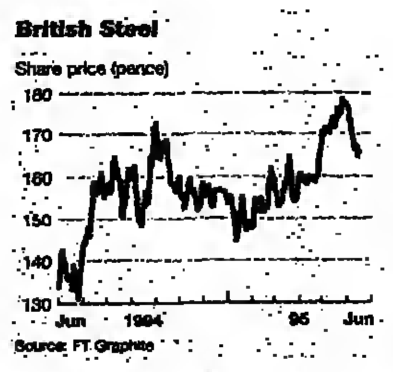
It has new capacity coming on stream which should feed through into volume increases.

As a result, analysts are forecasting another strong improvement in profits this year.

However, the prospects for the shares will be driven more hy the outlook for dividends.

Broker UBS is predicting dividends of 7p, up from just 2p last year, which would be covered almost three times hy earnings per share of 20p.

This would put the shares on a yield of 5.3 per cent rising to well over 7 per cent on dividend forecasts for the current year.



REGIONAL ELECTRICITY GROUPS

Attention shifts to customer rebates

As the results season for the regional electricity companies gets fully under way this week, interest will centre on the recs' attitude to customer rebates ahead of the regulator's new price review.

Seeboard, of the south east of England, which kicked off the season, announced it would allocate £20m ($31.8m) a year of cost savings to cutting customer hills.

However, this decision was criticised last week by Swalec, the south Weles distributor, which said it would ewait the nutcome of the review before making any commitment to share future profits with customers.

This week sees results from four recs. Tomorrow, South Western is expected to announce an increase in dividends of about 23 per cent with profits rising to abont £130m from £116.8m.

Norweb reports the following day with analysts forecasting dividends of about 27p, up from 23p, and profits of between £190m and £220m, compared with £178m.

For Manweb on Thursday the City is looking for dividend growth of about 19 per cent to 29p. Profits will be distorted by a charge on the sale of its retail business.

Some analysts are forecasting a 30 per cent hike in dividends from East Midlands Electricity on Friday, with profits rising to about £210m from £180.7m.

OTHER COMPANIES

Partial recovery but not solid progress

■ R. J. Heinz: the US food group, said in March it would achieve a 45 per cent increase in operating profits in its fourth quarter to April, so analysts will be expecting a big increase at the bottom line when the results come out on Tuesday.

Although the profits growth looks impressive, it represents a partial recovery rather than solid progress. Heinz had a rotten fourth quarter last year, largely because of a severe downturn in its Weight Watchers business, and even this week's increase will not be sufficient to claw back all the lost ground.

Salomon Brothers is forecasting a 22 per cent increase in earnings per share to 62 cents from 51 cents for the quarter and $2.35 against $2.11 for the lull year.

■ Qantas: a prospectus for the sale of shares in Australia's flagship airline, is dne on Thursday. The Australian federal government is selling its remaining 75 per cent interest in the carrier, and aims to raise A$2hn (US$1.45bn). Page 24

■ First Leisure: The bowling and discotheques group is tomorrow expected to report modest interim profits growth of £15m-£16m, ($23.8m-$25.4m), compared with £14.1m last year. Against a background of mute consumer spending, the City will want evidence that demand for 10-pin bowling has increased and that dancing admissions have held up, as well as news of the effect of National Lottery scratchcards, particularly on bingo. It will expect details of investment plans following the signing today of £100m of new committed credit facilities.

■ Airtours: Mr David Crossland, chairman, warned in January that the company's expansion would inevitably lead to an increase in seasonal half-year losses, which are expected to be between £34m and £38m ($54m-$60.4m) against an underlying loss of just under £22m.

■ Lonrho announces its first results since the company severed all links with Mr Tiny Rowland. First-half profits are expected to increase to £43m-£53m ($68.4m-$84.3m) from £41m, driven by improvements from its mining, botels and agricultural divisions. Analysts are forecasting a maintained dividend of 2p.

■ TSB: Analysts are looking for pre-tax profits for the six months to April in the range of £260-£270m ($413.4m-$429.3m), earnings per share of 11p-12p, and an interim dividend of about 4p.

■ 3I: The founding shareholders of the UK's largest investor in private companies will this week sell nearly 21 per cent of the shares in the group in a secondary market placing with institutions and private client brokers.

Companies in this issue

COMPANIES AND FINANCE

Pay row pushes WPP towards US

By William Lewis

WPP, the advertising group, is considering moving its domicile to the US following the furore over the proposed new pay package awarded to Mr Martin Sorrell, chief executive.

The company, which has a quote in both the UK and the US, is said to have been weighing up the merits of a permanent move to the US for some time, but its internal discussions have been re-sparked by the comments of institutional investors.

Two institutions, Fleming Investment Management and Hermes, formerly PosTel, have said they will vote against Mr Sorrell's proposed package at an extraordinary meeting on June 26. They are concerned that it could yield him about £35m over five years if certain performance targets are met.

Fleming clients of which hold about 8 per cent of the equity, is recommending shareholders vote against, as is Hermes, the pension fund manager. Pirc, the corporate governance consultancy, has also advised shareholders to vote against.

Mr Sorrell's package was approved by WPP's remuneration committee following comparisons with the pay of top executives at US-based marketing services companies. In discussions with the shareholders who argue that Mr Sorrell's pay should be in line with UK executives, one apparently said that the solution was for "WPP to go to the US and become a full time US company". This would involve WPP de-listing from London.

Advisers say that due to the geographical location of WPP's business such a move "has been on the agenda for some time". They say that approximately 40 per cent of its business is carried out in the US. WPP's annual report states that 32 per cent of its equity is owned by US shareholders.

The Association of British Insurers has approved the plan as falling within its guidelines.

However Mr Richard Regan, head of investment affairs, said on Friday that a number of members were looking at the sums involved. He also said that: "Most importantly there appears to be no requirement that the share price performance is underpinned by the underlying financial performance of the group".

Leveraged buy-out of wax maker

By David Wighton

Associated British Industries, a wax manufacturer and distributor traded under Rule 4.2, is being acquired for £40m in a leveraged buy-out by Aurora Capital Partners, a Los Angeles venture capital group.

It is planned to merge ABI with Petrowax, a US wax refiner which has been trading under Chapter 11. Aurora had originally wanted to buy just ABI's US business, which accounts for half its sales.

Aurora is funding the deal with a $110m (£70m) loan from Union Bank of Switzerland. ABI investors have been offered £10 in cash and 103p in loan notes per share. ABI's shares last traded at 417p.

More than 70 per cent of the shares are held by directors with the rest largely in the hands of institutions including Eagle Star, Norwich Union and Mercury Asset Management.

Granville, which also owns a stake, is advising the company while Chemical Bank is advising Aurora. The management of ABI, which is staying on, will take over management of the enlarged group.

ABI made pre-tax profits of £2.83m on sales of £43.1m in the year to March 1994.

British Bus to float with expected value of £250m

By Geoff Dyer

British Bus, the UK's largest private bus operator, is preparing for a flotation later this year which would value it at about £250m.

The Salisbury-based company hopes to raise £130m from the float in October or November. It has appointed Cazenove as broker and Hambros as adviser.

Mr Stephen Bayfield, director of corporate development, said a final decision would not be taken until July. But, he added, "we are pressing all the buttons as if we were floating in October".

British Bus was formed in 1992 after the management buy-out of Drawlane Holdings from National Express, the coach and airport operator. It is now the third largest bus company, with operations in Yorkshire, Kent, London and Scotland. If the flotation goes ahead it would become the UK's fourth listed independent bus operator.

Mr Bayfield said the company needed between £150m and £200m of new funds to finance its acquisition plans.

Mr Bayfield said two other options were still being considered: raising further funds from venture capitalists or a reverse takeover along the lines of the April takeover of West Midlands Travel by National Express. However, flotation was the favourite.

Aim starts dealing with list of 10

Dealing opens at 8.30am this morning on the Alternative Investment Market, with ten companies beginning trading on the successor for the Unlisted Securities Market and the 4.2, writes Christopher Price.

Aim has been devised by the London Stock Exchange for young and dynamic companies which need a low-cost vehicle to raise both capital and the group's visibility. To underpin the new junior market, the Stock Exchange will close the 4.2 market on September 29. The USM has ceased taking new members and will stop trading at the end of 1996.

The first week's trading on Aim should see the first capital-raising by a new company when Erros, a software house, joins through a placing. It is seeking between £800,000 and £1.5m. There will be at least another three companies which have no previous market experience joining from today – Norcity II, Norhomes and Athelney Trust.

A report by KPMG, the accountants, predicts 70 Aim companies by the end of the year and 200 by the end of 1996.

● **The FT will report the price of Aim shares in a separate section of the daily London Share Service, starting on Tuesday. AIM shares will appear immediately after the section headed "Water" and before "Americans". Inclusion will be at the editor's discretion.**

Dispute at Drayton Far East

A dispute has blown up between the board of the Drayton Far Eastern investment trust and its largest shareholder over a proposed restructuring, writes Roger Taylor.

The £160m trust, managed by Invesco, plans to split into two – investing in east Asia and Japan. However, an unintentional by-product is that, under the Insolvency Act, shareholders can elect to take cash, instead of shares in the new trusts. Invesco's lawyers argue that the cost and complexity of paying out cash under a liquidation would make such an option against shareholders' interests. Invesco has said that if more than 5 per cent of shareholders want to withdraw cash, it might abandon the plan.

Philips pension fund, which owns 10 per cent of the trust, has argued that it would be better if shareholders were free to take cash.

The reorganisation is intended to reduce the share price discount. Trusts investing just in Japan or east Asia trade at narrow discounts or premiums unlike those investing in both.

NEWS DIGEST

Reed Exec ahead 67% to £1.81m

Reed Executive, the UK's largest employment agency, increased pre-tax profits in the first quarter of this year by 67 per cent from £1.08m to £1.81m.

Mr Alec Reed, chairman, said there had been a downturn in the market in April and May. Margins for temporary and semi-skilled work were under pressure. However full-year profits were still expected to be ahead of last year's £6.39m.

Turnover was up 36 per cent at £34.6m (£25.5m) and earnings per share 2.18p (1.15p).

James Latham rises

In spite of continuing provisions James Latham, the building materials group, produced a 39 per cent increase in pre-tax profits, up from £1.34m to £1.86m for the year to March 31.

Turnover was 12 per cent ahead at £80.1m (£71.5m). Provisions this year amounted to £165,000. Earnings per share were 27.4p (21.4p) and the final is 3.75p for a total of 6p (4p).

Sutcliffe Speakman

Exceptional items left annual pre-tax profits static at Sutcliffe Speakman, supplier of environmental control systems. The £1m figure to March 31 was struck after a £146,000 loss on a property sale, while the previous £1.1m included a restructuring credit of £576,000. Operating profits grew 76 per cent to £1.45m, on turnover on continuing businesses of £23.1m (£22.6m).

Earnings per share were 0.55p (1.51p). The final dividend of 0.25p makes an unchanged total of 0.5p.

Craig & Rose in red

Exceptional charges pushed Craig & Rose, the decorating products maker, deeper into the red for the year to December 31. Pre-tax losses were £841,000 (£518,000), after exceptional charges of £388,000. Turnover was £4.49m (£5.25m). Losses per ordinary stock unit were 211.25p (125.5p).

CML Microsystems

CML Microsystems, the USM-quoted traffic control equipment manufacturer, reported pre-tax profits of £3.81m for the year to March 31, against £4.55m, on turnover up from £18.8m to £19.8m.

Earnings per share slipped to 13.75p (15.58p) and the proposed dividend is 6.1p (6p).

Aberdeen Steak

Aberdeen Steak Houses, the USM-quoted restaurant group, reported pre-tax profits up from £520,000 to £541,000 in the year to December 31. Turnover was ahead 5 per cent from £14.69m to £15.42m. Earnings per share advanced from 1.7p to 2.2p.

Cambridge Water

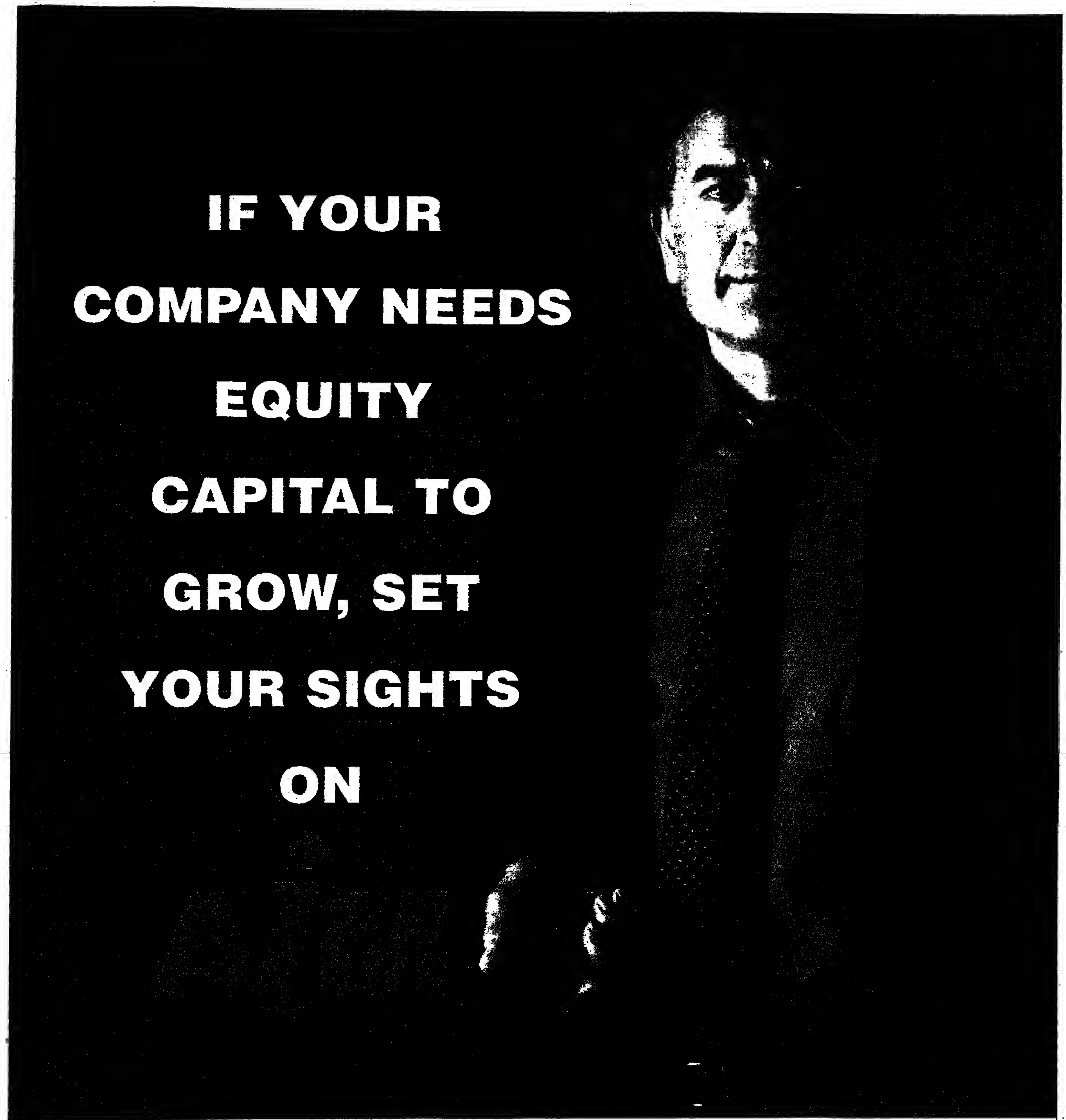
A 2.3 per cent rise in demand helped Cambridge Water Company raise pre-tax profits by 29 per cent from £4.14m to £5.35m in the year to March 31. Turnover rose by 4 per cent from £14.5m to £15.1m.

Earnings per share came to £10.20 (944p) while a final dividend of 150p makes a total for the year of 275p (190p).

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Dresdner Bank (Germany)	Kleinwort Benson (UK)	Banking	£966m	Takeover talks confirmed
Rieter (Switzerland)	Globe Industries (US)	Auto components	£100m	Global strategy step
Jefferson Smurfit (Ireland)	Munksjo (Sweden)	Paper & packing	£89m	Euro-strategy stake
Electron House (UK)/ Eurodis (Switzerland)	Eurodis Electron	Electronic	£60m	Merger under way
Shiva Corp (US)	Spider Systems (UK)	Computer	£50m	All-paper deal
Scapa Group (UK)	Coating Sciences (US)	Industrial material	£27.3m	Continuing diversification
Avnet (US)	VSI Electronics (Australia/NZ)	Electronics	£17.7m	Sale by UK's Electron
Protean (UK)	Walther (Germany)	Water services	£12.9m	Rights issue to finance
Heerema Fabrication (Netherlands)	THC Fabrication (UK)	Shipbuilding	n/a	Swan Hunter sold
ICL (UK/Japan)	Aquarius Robotron Computer Systems (Germany)	Computers	n/a	ICL approaches Euro-goal

COMPANY NOTICES


IF YOUR
COMPANY NEEDS
EQUITY
CAPITAL TO
GROW, SET
YOUR SIGHTS
ON
AIM

COMPANIES AND FINANCE

Belgian bank looks set to win CLBN

By Ronald van de Krol in Amsterdam

Generale Bank of Belgium appears to have emerged as the preferred bidder to take over the Dutch subsidiary of Crédit Lyonnais, the Frencb bank which is selling off assets to ease its heavy debt hurden.

The other main contender in the takeover race, the Dutch-Belgian financial services group Fortis, said yesterday that it had been told that Crédit Lyonnais was pursuing a deal with Generale Bank, Belgium's largest bank.

Neither the French bank nor the Belgian bank was immediately available for comment. A decision on the sale had been expected by the end of June. Generale confirmed last week that it had made an offer, but gave no details.

Crédit Lyonnais's Dutch subsidiary, Crédit Lyonnais Bank Nederland (CLBN), is tbe fourth largest bank in the Netherlands with a halance sheet of about Fl 30bn ($19.1bn), though it trails far beyond the country's leading three banks, ABN-Amro, ING and Rabobank. It has a network of more than 80 offices and a book value of about Fl 1bn.

Crédit Lyonnais owns 95 per cent of the bank's shares, with the rest traded on the Amsterdam Stock Exchange.

CLBN's French parent announced in April that it wanted to sell the Dutch bank, opening up a rare opportunity for a buyer interested in securing a strong presence in the Netherlands. The overwbelming domestic dominance of ABN-Amro, ING and Rabobank meant that none of these acquisitive banks could seriously contemplate taking over CLBN.

Fortis wanted to buy CLBN to boost the standing of its Dutch banking subsidiary VSB, which is primarily a savings bank, in the Netherlands' corporate sector. It declined to say how much it was prepared to pay for CLBN.

A matter of conflicting interests

Andrew Jack on the contretemps over the future direction of Suez

Mr Gérard Worms, chairman of Suez, the flagship French industrial and financial holding group, might have done well to avoid newspaper stands recently.

The future of Suez and the machinations of its management have been the subject of intense speculation in newspaper articles, all of which was described hy Mr Worms as "regrettable" at the company's annual meeting last Wednesday.

First came news that Banque Nationale de Paris, which has built up a stake of some 5 per cent in Suez over the past few months, and Union des Assurances de Paris, the largest shareholder with 6.9 per cent, were considering creating a buge financial conglomerate in conjunction with Suez.

While those involved have rejected suggestions that the plans are either well advanced or involve a true three-way merger, they have all acknowledged that tbere bave been exploratory talks between the respective chairmen.

Then came news that Mr Worms had beld talks with Mr François Pinault, one of the country's richest business executives, who has built up Pinault Printemps Redoute into a retail conglomerate which last year made profits of FFr1.2hn ($243.98m). One outcome of these talks could be an exchange of shares, with both groups investing in each other.

Again, the two parties involved have admitted tbey have held talks and it seems clear from Mr Worms' remarks that be is seriously contemplating acquiring a stake in Pinault. This would give Suez a new area of investment in the shape of retail distribution.

Finally, it emerged that Suez was discussing with Société Générale de Belgique, tbe holding company in which it has a 63 per cent stake, a new structure in whicb the power of the two groups would be equally divided.

But what are the true motives and objectives behind these different moves, which in themselves are not necessarily mutually exclusive?

Mr Jacques Friedmann, cbairman of UAP, wbo led what amounted to a shareholder revolt at the Suez annual meeting last Wednesday, argues that there is no financial logic in the group's move into retailing with Pinault.

But his views are hardly objective, given his alternative plans for the group. More cynical observers might suggest that be and bis shareholder supporters and fellow Snez directors – notably the heads of France's Saint-Gobain and Elf Aquitaine – are suspicious of an "outsider" like Mr Pinault being ahle to break into the French business establishment which tbey and Suez represent.

Others fear that Mr Pinault, who bas built a reputation as an avid purchaser of companies, might gain too mucb power at Suez and use it in his own interests.

Mr Worms assured shareholders last week tbat this would not happen. Yet others see his courting of Mr Pinault as essentially an attempt to find a "white knight" to save Suez from a potential takeover by BNP and UAP which could see the end of the group and him as its chairman.

The situation is further confused by the conflicting interests represented on the Suez board and among its largest investors.

Mr Lucien Douroux, bead of Crédit Agricole, for example, is a director and has said he was watching BNP's stake-building exercise with "vigilance". He is clearly nervous about a competitor interfering with a rival financial group in a way which might affect his business.

Gérard Worms: insists he has a clear strategy

Several analysts suggest BNP is primarily interested in Indosuez, Suez's banking operations, which might fetch FFr12bn to FFr15bn on current valuations. BNP alone would find it difficult to fund this acquisition from its own resources, and Mr Worms has until now denied that it was for sale.

Yet in another important development at Snez's annual meeting, be admitted that Indosuez would need substantial investment to compete effectively with other investment banks. If these resources could not be found internally, he added, the board would then quickly consider the question of an external partner.

None of this talk of restructuring would probably have taken place if Suez had improved its performance recently. Yet, as its recent 1994 annual report illustrates, the company's share price has been trading at a discount to the CAC-40 index of leading French quoted companies for all but about four months in the past three years.

As a long-standing shareholder in Suez put it at the annual meeting on Wednesday, the valne of his investment has been all hnt unchanged since the group was reprivatised in 1987 after being initially nationalised under the socialist administration of President François Mitterrand in 1982.

Since that time, be added, his shares bave been diluted far too often – notably with the acquisitions at peak prices of both Société Générale de Belgique in 1988 and then a year later of Victoire, the insurer which it has since sold.

It is no surprise that Mr Worms was careful to place considerable emphasis on shareholders during the annual meeting, even saying he would be setting up a shareholders' committee to improve communication.

Bnt trying to placate his shareholders will not be so easy. Mr Worms insists he has a clear strategy. Having dealt with its financial problems and written off its property and insurance activities, he says Suez aims to improve profitability, balance cyclical with non-cyclical businesses, only invest where it can have a controlling stake and focus on a few sectors.

Some of his more powerful shareholders and board members are not convinced this represents a coherent strategy, and are unlikely to wait more than a few months for a what they regard to be a clearer statement of policy.

Whatever the outcome, their outspokenness may have contributed to a fundamental long-term shift to more open aggression in French corporate circles.

Crédit Lyonnais in deal with Allianz

By Andrew Jack in Paris

Crédit Lyonnais, the banking group controlled by the French state, hopes to begin operating an exclusive agreement with Allianz, the German insurance group, to sell and distribute non-lifa products before the end of this year.

The development will follow the bank's decision to sign an agreement in principle to link up with Allianz, which is expected to take place shortly.

Crédit Lyonnais has been considering alliances with several insurers over the past few months, after the breakdown of last year's initial contacts with Assurances Générales de France, the insurer scheduled for privatisation.

Executives are believed to have beld discussions with companies including Axa, the quoted insurer, and Athena, another French group, as well as several in other countries.

However, they finally opted for Allianz, largely because of the importance of the German market, the group's financial strength, and the fact that it already has a significant presence within France.

Crédit Lyonnais is hoping to begin to operate under the terms of the Allianz deal by November.

The plan is to boost sales of non-life insurance through the Crédit Lyonnais branch network, offering prodncts inclnding car, house, credit card protection and mortgage indemnity insurance.

The strategy is linked to the belief that most people want to deal with a single company for all their financial and insurance concerns, which could be met through the bank.

It is also driven by the fact that the bank's current share of the market for non-life insurance is tiny compared with the amount of life assurance it sells to clients.

Japanese shipbuilders form alliance

By William Dawkins in Tokyo

Two of Japan's leading shipbuilders are to pool their warship construction businesses, the latest phase of the belated consolidation of the country's defence industry.

Hitachi Zosen and Mitsui Engineering and Shipbuilding, both based in western Japan, are to co-operate in all aspects of their defence business, inclnding design, prodnction, procurement, and research and development.

This is the second such deal this year and could be a prelnde to more co-operation between other defence contractors, in aerospace and weaponry, said defence experts.

Japan's defence budget rose by less than 1 per cent in the current tax year, to Y4,723bn ($55.87bn). Within that, Y870bn is to be spent on procurement, down 13 per cent on last year, intensifying the squeeze on already under-employed defence contractors.

Hitachi Zosen and Mitsui Engineering said they decided to co-operate to save costs and adjust to the decline in defence equipment spending.

This follows an accord in late April between Ishikawajima Heavy Industries and Sumitomo Heavy Industries, to pool their warship research and development and design departments.

The latest deal leaves Japan's warship contractors aligned in three groups, the Ishikawajima-Sumitomo alliance in eastern Japan, Hitachi-Zosen-Mitsui in the west, and Mitsuhishi Heavy Industries, also in western Japan.

Arab prince in bid to rescue Saudi company

By James Whittington in Cairo

Prince al-Waleed bin Talal bin Abdul, the Saudi hillionaire who controls United Saudi Commercial Bank, is boping to rescue one of Saudi Arabia's principal listed private sector manufacturing investment vehicles, the National Industrialisation Company (NIC).

At the head of a consortium of Arab investors, he paid an estimated $100m for a 50 per cent stake in the flagging company, which has investments in petrochemicals, cbemicals, electricity and other industrial projects in Saudi Arabia and the region.

In 1994, NIC's net profits dropped by 57 per cent to SR9m ($2.39m) from SR21m in 1993

Last year, the prince came to the rescue of Euro Disney and earlier this year he bought a controlling stake in New York's Plaza Hotel.

He is currently leading a consortium to buy a large stake in Fininvest, Mr Silvio Berlusconi's Italian media husiness.

Czech oil refinery plan agreed

By Vincent Boland in Prague

A consortium of four western oil companies bas agreed in principle with the government of the Czech Repuhlic to pay $173m for a 49 per cent stake in tbe country's two main oil refineries.

Both sides initialled a "master framework agreement" last week after more than a year of talks. If a definitive agreement is hammered out, as now appears certain, it will clear the way for a five-year, $480m investment programme at the refineries.

The definitive agreement will cover the treatment of environmental liabilities, transfer pricing, outstanding debt issues, and control of Czech Refineries (CRC), a new company set up to acquire the assets of the refineries at Cbemopetrol Litvinov and Kaucuk in northern Bobemia.

The consortium, comprising the Anglo-Dutch group Shell, Total of France, Italy's Agip and Conoco of the US, is to acquire the 49 per cent stake through a capital increase in CRC. The state will retain 51 per cent via Unipetrol, a new company that has been created to assume control of the entire Czech oil, petrochemical and petrol retailing sector.

The $480m investment programme will be financed hy a combination of the cash injection, operating revenues at the refineries, and borrowings. It has been cut from $520m after both sides agreed to reduce the amount of property included in the deal.

The framework agreement was initialled just a fortnight before the consortium's exclusive negotiating rights were due to expire on June 30.

Figaro shareholder revolt continues

By Vincent Boland

Minority shareholders in Figaro, the Philip Morris-controlled Slovak chocolate maker, have vowed to continue to fight for board representation, in spite of losing a vote on the issue at a nine-hour shareholder meeting.

Mr Robert Blazek, managing director of Prague Capital Partners, the Czech fund management company that is leading an unprecedented shareholder revolt at Figaro, said investors may take legal action to get a seat on the board.

Mr Blazek claimed Philip Morris, which owns 67 per cent of Figaro through its foods division Kraft Jacobs Suchard, failed to publish in full an agenda for the meeting put forward hy minority shareholders, rendering it invalid. One option open to investors is to test this in the Slovak courts.

At Friday's meeting, Philip Morris voted down a resolution calling for board representation for minority shareholders, and refused to abandon for the time being its practice of selling Figaro prodncts abroad through its own subsidiaries.

This means the US group is Figaro's hlggest trading partner as well as its biggest shareholder. Other shareholders said they would support legal action to gain a board seat.

FT/S&P Actuaries World Indices

At its last quarterly meeting, the FT/S&P-Actuaries World Index Policy Committee agreed the following constituent changes to the Indices, to take effect on July 3 1995. (L after a stock indicates it will be added to the Large Cap Index. M-S indicates it will be added to the Medium-Small Cap Index).

France. Deletion: Bon Marché (Industry Sector 491).

Italy. Deletion: Tecnost (533).

Malaysia. Additions: Affin Holdings (112 M-S); Arab-Malaysian Corp. (131 M-S); Hong Leong Bank (112 L); Lion Land (161 M-S); Pan Malaysia Cement Works (611 M-S); Sungei Wel Holdings (631 M-S); Tanjong (461 L); UMW Holdings (564 M-S); Westmont (592 M-S); YTL (613 L).

Sonth Africa. Additions: Reunert (541 M-S); Wooltru A Ordinary and Ordinary (492 M-S). Change to investable weighting: Iscor (633) 100 per cent (from 20 per cent). Sector change: C G Smith from 451 to 171. Deletions: AECI (621); Allied Electronics (551); Allied Technologies (551); Amcoal (201); Anamint (641); Beatrix Mines (641); Deelkraal Gold Mining (641); Edgars Stores (491); Elandsrand Gold Mining (641); Hartebeestfontein Estate (641); ICS Holdings (451); Irvin & Johnson (451); Palabora Mining (631); Pick & Pay Stores (492); Plate Glass (591); Pretoria Portland Cement (611); Randfontein Estate (641); Southvaal Holdings (641); Stellenbosch (422).

Future reviews. The Committee noted that the coverage of the investible universe of the US market in the Index has declined since the last review. A full review of the US market is being undertaken, with the objective of hringing it closer to the weighting typical of other FT/S&P AWI constituent markets.

Furtber details will he announced following the next quarterly meeting of the Committee.

The FT/S&P Actuaries World Indices are jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and Standard & Poor's in conjunction with the Institute of Actuaries and the Faculty of Actuories. NatWest Securities Limited is a co-founder.

All enquiries should be made to Jonathan Dempster at FT Information on 0171-825-8447 or to Barbara Mueller, Goldman, Sachs & Co., New York, on 212-902-6777.

FINANCIAL TIMES MARKETS THIS WEEK

Global Investor / John Plender

Institutions flex muscles in public

Over the past month some of the world's leading institutional investors have demonstrated a willingness to flex their muscles in public. The most surprising instance was at the French conglomerate Suez, where the biggest shareholder, Union des Assurances de Paris, led a campaign to prevent the company from increasing its share capital to facilitate the acquisition of a stake in the Pinault Printemps Redoute retailing group. Such an overt exercise of voting power flies in the face of the traditional mores of the close-knit French corporate hierarchy.

In Britain there was the rowdy British Gas annual meeting, where 16.9 per cent of those voting in a poll supported a resolution against the board on directors' pay. While most of the noise came from small shareholders, the majority of the 16.9 per cent hostile vote consisted of institutional proxies. Though the resolution failed, it sent shock waves through British boardrooms.

Meanwhile the California Public Employees' Retirement System (Calpers), which has about 13 per cent of its $80bn funds overseas, said it was going to target poorly performing companies in foreign markets. It has spoken up at meetings in Germany and France, attacking restricted voting rights at the energy conglomerate RWE and the St Gobain industrial group. But this steps up the campaign. In Japan and continental Europe it will be interpreted as *le défi Americain* raised to nuclear level.

There seems little doubt that institutional shareholder activism can generate enhanced economic returns. In the UK the Prudential has for decades maintained an unpublicised list of companies to which it applies pressure in response to sub-standard performance. Studies commissioned by Calpers in the US have produced statistical evidence to justify such activity.

One by Wilshire Associates last year suggested a strong correlation between action on corporate governance and improved performance at companies targeted by the Californian pension fund.

The strongest evidence in a study by Gordon Group related to non-negotiated voting initiatives to change corporate policy – ie, hostile proxy battles. This flies in the face of the traditional UK institutional view that a 'no' vote on any specific issue amounts to a vote of no confidence in the board, and that pressure is best applied delicately behind closed doors.

The growth in the percentage of shares held by institutions across the world means that shareholder activism is likely to increase. The more difficult question is whether pressure on corporate governance can be applied on a cross-border basis. The British institutions have rarely attempted this. Their whole approach is to punt more busily in foreign markets than at home (see chart) – though maybe to no great effect. According to PDFM's global pension fund indicators, the average UK pension fund achieved a total return of 15.2 per cent on foreign equities in the 10 years to end-1993, compared with 18.8 per cent in domestic equities.

Yet a purposeful cross-border use of voting power is certainly possible in an Anglo-Saxon context: the New York State Pension Fund voted against the board on directors' pay at British Gas, while the Chicago-based Harris Associates played an active role in removing Mr Maurice Saatchi from the advertising group now known as Cordiant.

Calpers is no doubt right in arguing that if companies want access to international capital, they must accept international standards on corporate voting structures. That standard is, of course, largely American. Yet in most cases in continental Europe and Japan, this aggressive approach is likely to run into a strong defensive barrier.

Consider the experience of US investment fund Elliott Associates, which built up a stake in La Compagnie d'Investissements de Paris, an underperforming investment trust in which Banque Nationale de Paris has a majority stake. Elliott put resolutions at the AGM on May 31 aimed at raising the dividend and enhancing shareholder value.

For minority shareholders, and foreigners at that, to behave in this way was undeniably forward by gallic standards. Yet Mr Michel Pebereau, president of BNP, had publicly stated that the time had come for French management to pay closer attention to the interests of shareholders. As it transpired, Mr Pebereau had other managements in mind than that of CIP, which he chaired. Elliott Associates were summarily dispatched; CIP remains afflicted by a large discount to net asset value.

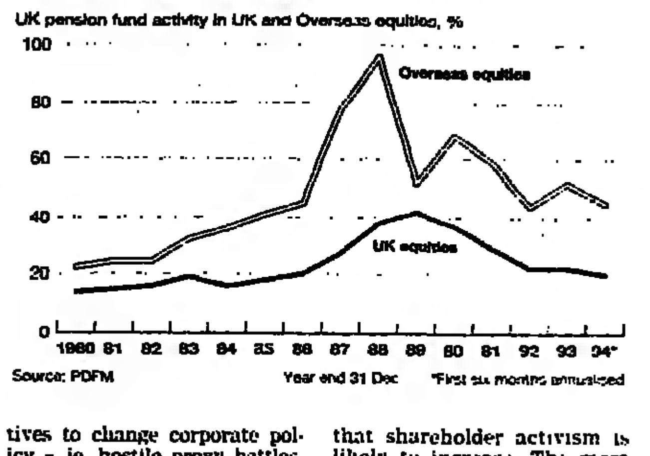
This suggests that some of the foreigners, who now own a third of the equity on the French bourse, may have bought shares on the basis of a misunderstanding.

The Suez case shows there is a measure of accountability to core shareholders. There is often accountability to ministers, since the state plays an active role in corporate affairs. And in the case of the recent corporate scandals, accountability is exercised, in extremis, by the courts.

But whereas incestuous relations in the Anglo-Saxon corporate world are usually in the form of boardroom links, incest in continental European and Japanese business takes the additional form of cross-shareholdings. Those cross-holdings are often there for purposes extraneous to any narrow Anglo-Saxon concept of shareholder value.

US investors have frequently under-performed, as in Japan last year, by failing to recognise that the level of foreign stock markets may be dictated by intricate relationships between institutions, banks, companies and governments; and, that value in many capital market systems reflects crude voting power rather than earnings or dividends. The message for Calpers and others is, when in Rome, do as the Romans do – unless you know exactly how badly they need your capital.

More active overseas



Source: PDFM

Total return in local currency to 15/6/95

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.12	0.02	0.09	0.14	0.20	0.12
Month	0.51	0.11	0.38	0.62	0.82	0.52
Year	5.44	2.50	5.19	5.90	6.44	6.05
Bonds 3-5 year						
Week	0.42	-0.25	-0.02	-0.36	-0.44	-0.62
Month	1.90	1.76	1.49	0.33	-0.29	1.28
Year	9.67	9.58	9.75	7.40	6.65	9.84
Bonds 7-10 year						
Week	0.38	-0.56	-1.05	-0.71	-1.25	-1.19
Month	2.77	2.41	0.64	0.27	-1.33	1.14
Year	13.33	12.34	9.96	8.22	2.62	12.07
Equities						
Week	3.9	-2.7	-0.1	-1.5	-1.5	-0.4
Month	1.6	-8.0	1.7	-2.5	-2.8	2.1
Year	20.2	-27.3	2.4	2.1	2.1	14.4

Source: Cash & Bonds - Lehman Brothers. Equities - NatWest Securities. The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

Economics Notebook

History lessons

Is Japan on the brink of suffering 1930s-style deflation? At first glance, the claim – heard with increasing regularity in recent weeks – sounds like scare-mongering.

Real GNP in the US fell by 30 per cent between 1929 and 1933, while the absolute price level in the main industrial countries fell by 27 per cent. The scale of Japan's problems – four years of low or stagnant demand and officially, a 0.2 per cent decline in consumer prices in the year to April – bears little comparison with the earlier era. Some of the root causes, however, are disturbingly similar.

The process linking the US of the early 1930s to the Japan of the 1990s is the classic model of boom-and-bust economics first described by the economist Irving Fisher in 1933*.

In his model, a credit boom leads to excess borrowing on the basis of over-inflated estimates of current and future wealth. When the bubble eventually bursts, falling asset prices and the slowing of economic activity makes these debt burdens harder to sustain. Indebted companies and individuals have to cut down their investment and consumption to pay off debt, thus depressing activity further.

The danger in this situation is that asset price deflation and over-indebtedness will feed on one another in a debt-deflationary spiral. As asset prices fall, and real interest rates rise, more and more companies may be forced into liquidating their debts, leading to more price falls, and further depressing economic activity. Eventually, if the authorities permit this to occur, lower bank deposits and bank failures cause the deflationary virus to spread through the economy, meaning a collapse in confidence and all-out depression.

This is what happened in the US in the 1930s. As many commented at the time, the "boom" part of the model had many echoes in the speculative excesses of the 1980s. The private sector in the Anglo-Saxon countries and Japan took on increasingly large debt burdens based on the assumption that the boom in real estate and other asset markets would continue. In the UK, total private non-financial sector debt as a share of GDP rose from less than 80 per cent to 160 per cent from 1980 to 1991. In the US, debt increased from 106 to 133 per cent of GDP. Japan's private sector debt rose even higher – from 130 per cent, to some 206 per cent.

When real estate and securities markets started to tumble at the end of the 1980s, many feared that the "bust" of the 1990s would follow Fisher's downward path. In the event, balance sheet re-adjustment did put a drag on economic recovery in the US and the UK. By and large, however, even the more apocalyptic observers, in either country, have stopped evoking the memory of the 1930s, because the most dangerous stage of the Fisher cycle is behind them. The economy-wide effects of debt-deflation in overvalued sectors were minimised, especially in the US, through rapid reductions in real interest rates and determined – and costly – public support of the financial system.

The charts illustrate the success of the US Federal Reserve's strategy. The burden of US private non-financial debt fell by 8 per cent since 1991, from 133 per cent of GDP to 122 per cent. Real GNP has risen nearly 10 per cent over tha period. In Japan, however, the situation today is even worse than a few years back. Real private debt has risen by another 5 per cent since 1991, from 206 per cent of GDP to 218 per cent in 1994. Real GDP has risen a mere 1.5 per cent over the period.

While there is still much to separate them, three factors help to make Japan's current situation more reminiscent of the US of the 1930s than the US of four years ago. The first, is the sheer scale of the 1980s credit and asset boom in Japan, which far-exceeded anything seen in the UK and the US. Securities and property prices had further to fall in Japan – indeed they have not yet stopped falling.

The second factor which has added to Japan's problems – as it added to America's in the earlier period – is a soaring currency. Competitive devaluations by the US's major trading partners – especially the UK in 1931 – was a large factor in US deflation. The rise in the yen has had a more muted effect on the Japanese domestic price level, but business confidence among exporters looks to have been badly hit by the rise in the yen.

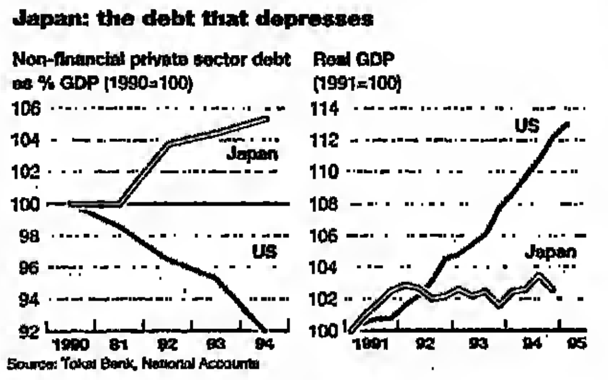
Many would argue that there was a third similarity between the two countries – policy makers' unwillingness to take drastic action. The New York Federal Reserve cut interest rates to help support the pound in 1927, which was later thought to have sent the wrong message to an already-feverish stock market. The Bank of Japan made a similar mistake in the late 1980s, which made it initially reluctant to cut rates dramatically. Stagnant or falling prices exacerbated the delay – it was only at the end of 1994 that Japanese real three-month interest rates fell below US rates, for the first since 1989.

The Japanese discount rate might now be cut another percentage point, to zero. But as long as prices continue to fall, real interest rates will be unaffected by standard methods of easing. By injecting further liquidity into the system directly, by buying up public bonds and, possibly, taking on some of the debts of the shaky banking system, the government could still show that it remembers America's past, and will not condemn Japan to relive it.

Stephanie Flanders

*The Debt-Deflation Theory of Great Depressions.

Japan: the debt that depresses



Source: Tokai Bank, National Accounts

Gold conference well timed

This week could prove to have been a happy choice for the timing of this year's Financial Times World Gold conference. After trading for some time in a restricted range the London gold price last week broke above $390 a troy ounce for the first time in six weeks, and traders were hoping there was more to come.

Once again it was investment fund activity that broke the deadlock, so the move could be short-lived if the funds decide to take their profits. But traders were encouraged because a considerable amount of producer selling was absorbed by the market at the same time. There was also growing confidence that a challenge to resistance at the $395 mark could be mounted, perhaps with the assistance of a US interest rate cut.

With other commodity prices, particularly base metals, moving higher, stock and bond markets looking top-heavy and South African gold output falling, there may be some justification for traders hopes that this break-out attempt will not suffer the same fate that so many others have this year.

The two-day Financial Times conference, which begins today in Lugano, Switzerland, will have as its chairmen Mr Jean Zwahlen, a member of the governing board of the Swiss National Bank, Mr Robert Weinberg, mining director at S.G. Warburg Securities, and Mr Frederick Bogart, managing director, precious metals, of Republic National Bank of New York.

● Other events this week include the International Lead and Zinc Study Group's sixth international conference – on Recycling Lead and Zinc into the 21st Century, which began in Madrid yesterday and continues until Friday.

In Moscow today Almazy Rossii-Sakha, the Russian diamond producer, together with the government of the republic of Sakha (Yakutia) and the Russian Federation Committee on Precious Metals and Stones, begins a five-day international meeting to celebrate 40 years of diamond mining in Russia.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JUNE 16 1995 US Dollar Index	%chg since 30/12/94	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 30/12/94	Gross Div. Yield	THURSDAY JUNE 15 1995 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (82)	164.59	-4.1	151.76	87.95	119.86	150.37	2.2	4.19	163.48	151.92	87.84	118.89	149.50	180.82	157.85	171.46
Austria (26)	191.26	4.7	176.34	102.20	139.27	139.10	-5.5	1.27	190.83	177.33	102.30	139.94	139.77	198.89	167.48	182.72
Belgium (35)	192.08	14.0	177.08	102.63	139.86	136.14	3.0	3.84	190.37	176.80	102.05	138.61	136.03	201.12	161.66	167.81
Brazil (28)	134.65	-17.5	124.06	71.90	97.86	225.01	-11.6	1.51	133.40	123.97	71.51	97.83	222.35	-	-	-
Canada (102)	142.60	10.2	131.48	76.20	103.84	142.70	8.6	2.48	142.81	132.71	76.55	104.73	142.42	142.81	120.54	125.95
Denmark (33)	275.86	9.5	254.16	147.30	200.73	205.06	-1.6	1.55	276.87	257.29	148.42	203.05	207.18	287.44	236.61	253.48
Finland (24)	220.04	18.3	202.86	117.58	160.23	198.86	7.4	1.56	212.32	197.30	113.82	155.70	192.63	220.04	138.52	138.52
France (101)	182.68	11.7	168.44	97.62	133.03	140.94	2.9	3.16	182.84	169.81	98.01	134.09	141.93	191.17	157.79	162.23
Germany (59)	157.55	9.8	145.27	84.19	114.73	114.73	-0.7	2.07	156.83	145.75	84.07	115.01	115.01	158.32	132.08	134.23
Hong Kong (55)	364.05	11.6	335.67	194.54	265.11	361.54	11.6	3.76	361.67	336.37	194.04	265.46	359.51	416.42	277.40	368.75
Ireland (16)	231.09	12.1	213.07	123.49	168.29	198.05	5.8	3.90	229.61	213.38	123.09	168.39	199.14	231.86	181.99	185.31
Italy (58)	72.69	-3.5	67.03	38.86	52.94	89.40	-1.9	1.91	73.14	67.97	39.21	53.64	90.13	88.76	65.45	82.31
Japan (483)	144.26	-8.1	133.03	77.10	105.07	77.10	-22.1	0.97	144.48	134.26	77.45	105.96	77.45	170.10	135.95	164.46
Malaysia (97)	546.24	13.9	503.65	291.89	397.79	513.74	9.0	1.58	544.30	505.82	291.79	399.16	512.23	594.78	398.16	483.71
Mexico (18)	967.52	-31.7	892.07	517.00	704.55	8542.72	-14.2	2.05	947.04	880.07	507.67	694.51	8424.94	2414.12	847.81	1869.29
Netherland (19)	248.11	14.4	228.77	132.58	180.89	177.51	3.3	3.59	247.40	229.91	132.62	181.44	178.35	252.34	194.56	199.80
New Zealand (14)	79.65	13.1	73.44	42.56	58.00	63.13	8.0	4.68	80.45	74.76	43.13	59.00	63.82	84.31	64.00	69.04
Norway (33)	228.73	7.3	210.89	122.22	166.56	193.89	-1.0	2.18	225.15	209.23	120.70	165.12	191.61	230.07	177.53	183.21
Singapore (44)	392.17	5.1	361.59	209.56	285.59	252.26	0.6	1.70	397.68	369.56	213.16	291.86	255.96	414.26	313.94	340.89
South Africa (61)	341.06	1.3	314.46	182.25	248.36	273.42	-8.8	2.53	340.69	316.59	182.61	249.82	273.39	363.22	261.43	283.10
Spain (36)	146.29	10.8	134.88	78.17	106.53	134.82	2.5	4.19	146.21	135.87	78.38	107.22	135.18	151.79	124.10	138.66
Sweden (48)	262.16	13.4	241.74	140.10	190.92	281.51	10.7	2.12	259.66	241.30	139.20	190.43	279.72	266.60	196.70	211.21
Switzerland (46)	196.47	18.9	181.15	104.99	143.07	141.28	5.4	1.82	197.00	183.05	105.60	144.47	142.46	199.48	155.05	159.56
Thailand (46)	171.17	8.2	157.82	91.47	124.65	163.82	6.3	2.66	170.76	158.69	91.54	125.29	163.44	-	-	-
United Kingdom (203)	219.07	12.4	201.99	117.06	159.53	201.99	9.4	4.15	217.60	202.21	116.65	159.58	202.21	219.07	181.11	187.76
USA (506)	220.54	17.5	203.34	117.84	160.60	220.54	17.6	2.61	219.45	203.93	117.64	160.93	219.45	220.54	180.55	188.34
Americas (654)	201.99	15.8	186.24	107.94	147.09	169.47	16.2	2.59	201.01	186.79	107.75	147.41	169.62	-	-	-
Europe (739)	188.96	11.8	174.23	100.97	137.60	158.09	5.0	3.17	188.24	174.93	100.91	138.05	158.51	190.51	160.59	163.40
Nordic (138)	253.66	13.0	233.90	135.55	184.73	225.09	6.9	1.93	250.62	232.90	134.35	183.80	223.31	255.62	197.70	201.73
Pacific Basin (821)	154.73	-5.8	142.67	82.68	112.68	88.43	-16.1	1.36	154.84	143.89	83.00	113.55	88.73	178.85	145.93	171.93
Euro-Pacific (1560)	168.90	1.7	155.73	90.25	122.99	114.23	-8.5	2.20	168.66	156.73	90.41	123.68	114.58	178.33	154.73	166.22
North America (608)	215.71	17.1	198.89	115.27	157.08	215.26	17.1	2.61	214.70	199.52	115.09	157.45	214.23	215.71	176.83	154.47
Europe Ex. UK (536)	168.76	11.5	155.60	90.18	122.89	133.09	2.5	2.61	168.40	156.49	90.27	123.49	134.17	171.29	144.12	146.68
Pacific Ex. Japan (338)	254.17	8.7	234.35	135.82	185.09	222.84	6.9	3.20	253.50	235.58	135.89	185.91	222.38	273.13	211.18	246.88
World Ex. US (1769)	169.69	1.4	156.46	90.68	123.57	117.67	-8.3	2.21	169.44	157.45	90.83	124.26	118.18	178.73	155.42	169.22
World Ex. UK (2072)	181.67	6.4	167.89	97.18	132.44	142.18	-0.5	2.17	181.44	168.61	97.26	133.06	142.13	187.07	163.46	173.25
World Ex. Japan (1792)	208.28	13.4	192.04	111.29	151.67	193.52	10.7	2.85	207.39	192.73	111.18	152.09	193.16	208.74	176.74	182.18
The World Index (2275)	185.10	7.0	170.67	98.91	134.79	147.28	0.4	2.36	184.59	171.53	98.95	135.37	147.25	189.27	165.92	174.55

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 190.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). Constituent changes during the week ending 16/6/95: Deletion: Pancontinental Mining (Australia)

WORLD BOND MARKETS: This Week

NEW YORK — Richard Tomkins

US Treasuries ended slightly lower on Friday amid bond market concerns that the Federal Reserve is still not persuaded of the need to ease monetary policy. Economic indicators have been much weaker than expected, leading to a belief that the US economy is in danger of dipping into recession.

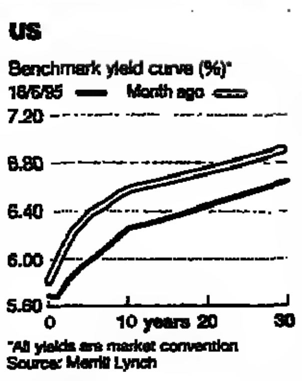
The market had been betting this would lead to a cut in interest rates, and had factored this into bond prices. But recent comments from the Fed have suggested it wants to wait for at least one more month's data before deciding whether to play ball.

Fresh economic data will be a little thin on the ground in the coming week, but tomorrow should see publication of the figures for housing starts during May.

According to MMS International, the consensus forecast is for an annualised 1.25m, only slightly above the low level of 1.24m recorded in April – although recent declines in mortgage rates could start to show through in higher figures later this year.

Figures for new orders taken by durable goods manufacturers are due on Friday, with MMS International forecasting an increase of 0.4 per cent in May after April'a 4 per cent fall.

Such s small increase, following three consecutive months of decline, is likely to reaffirm the relative weakness of the manufacturing sector.



*All yields are market convention
Source: Merrill Lynch

LONDON — Graham Bowley

With little economic data on offer this week, attention will be on Wednesday's release of the minutes of last month's meeting between the chancellor and the governor of the Bank of England.

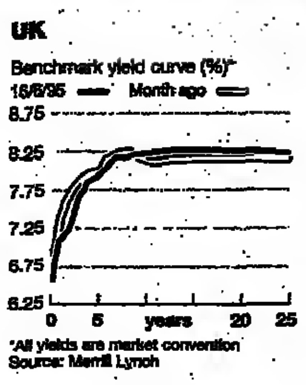
There appeared to be strong disagreement over the decision to leave interest rates unchanged after the meeting, and traders will scrutinise the minutes for any light they may throw on the case for an increase.

"There could easily be a reassessment of interest rate moves when we get the minutes," said Ms Katy Peters, economist et Daiwa. "A realisation that the decision was finely balanced could have a large impact on gilts."

Details of the next gilt auction on June 28 are expected tomorrow. Traders expect the Bank of England to announce a sale of ebout £2bn of 8½ per cent 2005 stock.

Ms Peters said some investors remain nervous ahead of the government's implementation of its proposed gilt tax reforms. Deadline for responses to the proposals is June 30. Mr Stephen Scott of Kleinwort Benson said uncertainty over the changes is likely to mean gilts will remain volatila until full details are announced.

Tomorrow's data on money supply is likely to show that M4 grew more slowly last month. This will be taken as further evidence of week domestic demand.



*All yields are market convention
Source: Merrill Lynch

FRANKFURT — Andrew Fisher

Even when the Bundesbank does nothing, financial markets wonder what it is up to. By leaving interest rates unchanged last week when it met in east Germany, it merely deferred expectations of an eventual cut until later in the summer.

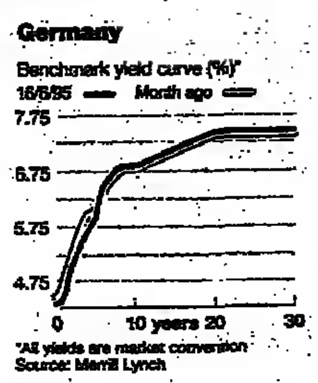
A number of economists still expect the discount and Lombard rates to be reduced before council members go off for the summer break in mid-July. Others think this will happen later.

Emphasising the need to stick to its stability-oriented policies and keep an eye on inflation, Mr Hans Tietmeyer, the Bundesbank president, sought to keep an element of doubt in the market.

But Mr Julian Jessop of HSBC Markets was unmoved. "Our expectations of lower rates are intact," he said. Among the dissenters to this view are Mr Robert Lind of Hoare Govett, who expected no cut ahead of last week's meeting and still does not.

"Official interest rates are on hold for some considerable time," he said.

In its monthly report, out today, the central bank says: "The latest interest rate cut [in March] does not signal the all-clear in terms of stability policy." It notes that the fall in bond rates continued after its discount and Lombard rate cuts, an indication that the latter had produced no doubts in the markets about its stability-oriented course.



*All yields are market convention
Source: Merrill Lynch

TOKYO — Emiko Terazono

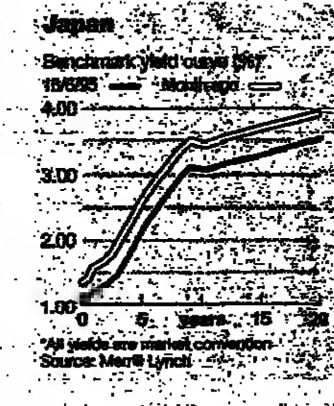
The Tokyo bond market took a breather last week as demand among institutional investors eased. While life and non-life assurers bought a record Y1,370bn and trust banks bought Y1,227bn in government bonds last month, such levels have been difficult to sustain.

Meanwhile, the risks for the bond market have been increasing. The continued weakness in Japanese shares, which until recently had been a positive factor for bonds, has reduced the unrealised profits on equity held by investors, prompting them to take profits where they can. Hence a further fall in the Tokyo stock market could trigger active selling in the bond market.

The weak economy has cast a shadow on the market because the need for fiscal support has increased the likelihood of higher government bond supply. Investors are concerned about an additional stimulus package financed by bonds.

"Even if the investment plans of domestic institutions continue to focus principally on cash and bonds, in the face of government supply it may prove hard for the benchmark bond yield to remain at the 3 per cent level for long," says Barclays de Zoete Wedd.

The government is likely to need to finance additional public funds, support for the financial system and declining tax revenues due to the slow recovery.



*All yields are market convention
Source: Merrill Lynch

European government bonds

US Treasuries take a trend-setting role

The wey European government bond markets have closely followed every twist and turn of the US Treasury market highligbts just bow much America's economic and financial bealth matters not just to America but to everyone else too.

Treasury bonds have roared ahead this year on signs that the US economy – after almost four years of recovery – is now slowing. Ten-year Treasury yields have fallen by about 1.7 percentage points since the start of the year to about 6.2 per cent. European bonds have followed closely in their wake, in spite of the fact that the European recoveries are much less advanced and growth is still relatively muted.

An illustration of the degree to which the US has led the way is the sharp reversal in the yield spread between bunds and Treasuries. Bunds now yield about 50 basis points more than Treasuries – reflecting the fact that the US recovery is so much more advanced than Germany's. At the start of the year they were yielding 28 basis points less.

Part of the link between the US and Europe may be explained by the increased participation of US investors in overseas markets. Whereas in the 1980s, US investors bought relatively few European bonds, in the 1990s – and particularly since the bull market of 1993 – there has been an explosion of US interest in foreign bonds.

Although US net purchases of foreign bonds fell during last year's bear market conditions as US interest rates rose, turnover of foreign bonds by US investors nevertheless continued to increase. "It seems that the structural diversification remains in place," said Mr Mark Cliffe of HSBC Greenwell in London.

"There has been an Americanisation of the European markets," he said. "One consequence of this is that European markets have traded off US fundamentals rather than their own. Although the US economy is around two years ahead of Europe in the economic cycle, bond markets have moved in tandem."

Over the past weeks, the slightest hint by the US euthorities that the US slowdown was not likely to be as abrupt as bond investors had boped caused violent corrections in Europsan markets. Comments by Mr Alan Greenspan, chairman of the Federal Reserve, and on Friday by Mr Alan Blinder, his vice-chairman, who said that there were no signs of e recession despite weak economic data, sent French, German and other markets into e tailspin.

Rumours that Japanese institutions had been instructed to sell US assets in retaliation for America's lack of action in the current trade dispute also sent European markets lower, in spite of denials by Japanese officials. European investors correctly saw the threat such e development would pose for their own markets.

But the markets' close correlation may have another explanation. Although many European economies have only recently emerged from recession, there are signs they are beginning to slow down again. Domestic consumer demand remains weak in many European countries. In Germany there are fears that the strength of the D-Mark will hit export growth.

In January, economists' consensus expectation was for western German growth of about 2.6 per cent this year and 2.8 per cent next year. This has now dropped to a growth forecast of 2.4 per cent this year and 2.2 per cent in 1996.

"Arguably, economic cycles are now moving more closely into synchronisation," said Mr Cliffe. "We are not talking about the German economy going into recession, but growth has started to disappoint. We now have a bull trend dominated by the US but also supported by European fundamentals."

Mr Malcolm Roberts of UBS in London, agrees that there is a close correletion between European and US bond markets – UBS calculates a correlation coefficient of about 0.7 per cent between bunds and Treasuries. But he disputes the claim that it is the US bond market that is leading, while the rest of the world follows. Rather, he thinks that the European and US, as well Japanese bond rallies, are the result of common global policy of keeping monetary policy tight to keep inflation low.

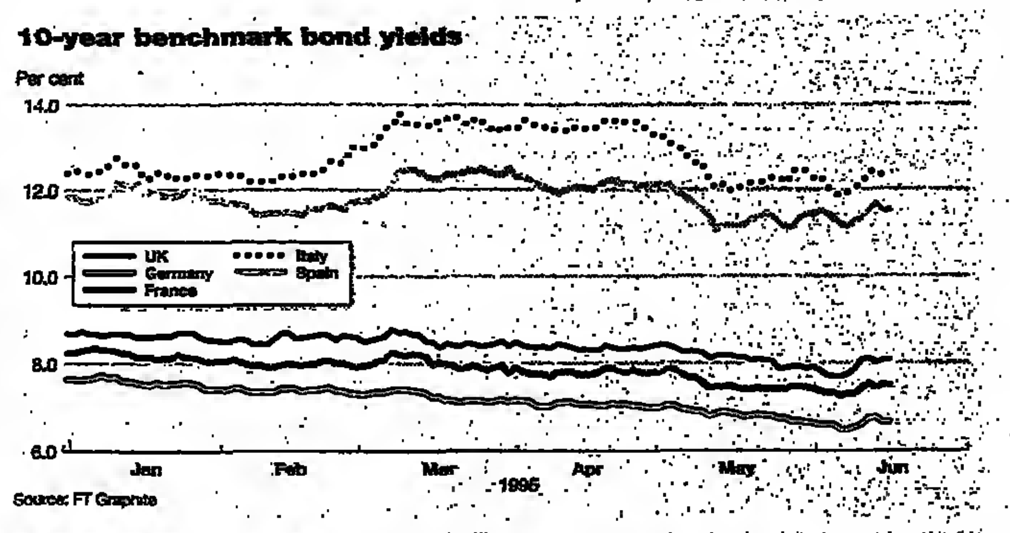
"The whole world is experiencing a succession of downward adjustments to inflation expectations," said Mr Roberts.

Meanwhile, there is fervent speculation among investors and traders about whether or when the Bundesbank or the Federal Reserve might move to lower interest rates.

Some hope the Bundesbank will move before its summer recess. On the US, there is a clear split about the direction of the US economy. One camp, mainly analysts at US banks, believes the current slowdown is temporary and that the weaker dollar and lower bond yields will soon reinvigorate the economy, which would be a setback to the current world bond market rally.

The other camp, largely the European banks, believes that the slowdown is set to last. This debate looks set to dominate all markets over the coming months.

Graham Bowley



Source: FT Graphite

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.25	1.00	4.00	6.40'	8.25	6.75²
Overnight	6.00	1.25	4.50	7.28	10.45	6.75
Three month	5.86	1.15	4.37	7.20	10.85	6.56
One year	5.67	1.06	4.83	6.68	11.36	7.12
Five year	5.93	2.12	5.88	7.13	12.42	7.82
Ten year	6.22	2.93	6.79	7.55	12.82	8.19

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	114-02	113-25	-0-06	114-02	113-01	2,187	48,271
Sep	113-22	113-16	-0-05	113-23	112-23	339,482	347,980
Dec	113-05	113-02	-0-05	113-05	112-09	4,057	19,820

Emerging markets

Where entrepreneurs rule the roost

Eastern Europe, along with other emerging markets, is beck in favour. Stock markets have recovered some ground and investment banks such as SBC, Warburg and Morgan Grenfell are looking to expand their presence there.

They will be drawing lessons from the experience of CS First Boston, the doyen of investment banks in the region. Mr Boris Jordan, co-head of its Moscow office, resigned this month and demonstrated how deeply investment banks in eastern Europe rely on individuals.

Mr Jordan is only 28 years old. CSFB, owned by CS Holding of Switzerland, says its Russian business can withstand the departure of a few individuals. The bank'a enthusiesm for Russie is "totally undiminished," it says.

But if there is a star of the securities industry in Russia it is Mr Jordan; impressed colleagues call him 'the tsar'. Under his leadership, Moscow earned CSFB nearly $100m in revenues last year and contributed about half of the investment bank's worldwide pre-tax profits.

'The tsar' has taken with him to his new venture three key colleagues. About 25 of the office's complement of about 60 are expected to follow. CSFB admits his departure is a "major blow".

Events beyond CSFB's control played a part. The climate in Rusaia is turning against western investment banks. Mr Jordan is a bellwether. He is going native, setting up a new bank in alliance with e Russian commercial bank.

Mr Jordan also chafed at the restrictions imposed by the big global institution.

Employees at banks such as CSFB report both to global product groups as well as to regional heads. A former colleague of Mr Jordan says he resented second-guessing by London and New York if, for instance, executives in charge of equity markets turned bearish on Russia.

"Finding your positions sold ont from under you is not something you are going to tolerate," says a former colleague of Mr Jordan.

Entrepreneurial investment bankers have found CSFB e particularly frustrating workplace because it has changed. Under Mr Hans-Jorg Rndloff, the European operations were autonomous. He had an open management styla and the authority to take quick decisions.

Mr Rudloff left in 1993 and CSFB has moved to centralise management of different products, such as equity. Investment bankers complain of bureaucracy. "It's not so much fun any more," says one executive in eastern Europe.

Keeping the talent happy is as crucial in investment banking as in show business. Investment banks contend with a constant tension between control and the freedom which allows entrepreneurial individuals to thrive. The tension is particularly acute in the emerging markets. It is a shifting environment whicb favours freewbeeling individuals and styles of business.

Mr Ian Molson, head of European investment banking at CSFB, concedes: "Operating with our compliance standards and regulatory requirements is a constraint. We forgo certain business in Russia and certain opportunities to make money."

But e lighter touch by management can be dangerous. Untamed bankers can run amok. Barings executives failed to stop Mr Nick Leeson from bringing down the bank because they were told he was making money.

The threat is particularly acute in emerging markets. Entrepreneurs can all too easily turn into cowboys. Distance complicates supervision. The losses on derivatives at Metallgesellschaft and Barings were incurred et subsidiaries far from the company's headquarters.

One lesson of Mr Jordan's defection is to cut e deal with stars before they are successful, according to a CSFB executive. "It is difficult to put the genia back in the bottle," he says. Success is unpredictable, however. The Moscow stock market's surge, and CSFB's profits there in 1994, came unexpectedly.

Investment banks often attempt to tie in key staff by delaying remuneration. That can as often prompt as deter departure. Only about a third of Mr Jordan's estimated compensation of $4m last year was in cash. Much of the remainder is jeopardised by departure, but Mr Jordan still left.

Using remuneration to retain staff has its limits. Disbursing e large proportion of CSFB's Moscow profit in 1994 to local executives would have been problematic within the organisation. London and New York believe they subsidised Moscow for two years before it swung into profit. Excessive bonuses can, moreover, encourage executives to take risks with the bank's capital.

Ownership can encourage responsibility. Creditanstalt, the Austrian bank, NM Rothschild, the UK merchant bank, and MC Securities, Mr Rudloff's new east European investment banking boutique, have a policy of forming joint ventures with local executives in eastern Europe.

But conceding control goes against the grain for institutions with ambitions to provide a universal investment banking service on e global basis. Mr Jordan offered CSFB about 20 per cent in his new venture. It refused. A CSFB executive says: "We are not prepared to consign our future in Russia to e minority shareholding."

Nicholas Denton

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Banco Bamerindus do Brasil	100	Jan.1997	10.50#	99.9383R	10.54	+460(6¼%-97)	Merrill Lynch Intl.
Tennessee Valley Authority(d)	2bn	Jun.2005	6.375#	99.354R	6.464	+31(6½%-05)	Lehman Brothers Intl.
NationsBank Corp.(f)‡	500	Jul.2000	(f1)	99.91R	-	-	Merrill Lynch Intl.
Bancomext(g)‡	300	Jun.1997	(g1)	100.00R	-	-	Santander Inv. Bank
Den Danske Bank(h)‡	100	Jul.2005	(h1)	99.185R	-	-	Morgan Stanley Intl.
YEN							
DSL Bank★	35bn	Jul.2002	2.60#	100.00R	2.600	-	Nikko Europe
KfW International Finance★	30bn	Jul.2001	2.50	100.175	2.468	-	Mitsubishi Finance Intl.
Asian Development Bank	40bn	Jun.2005	3.125	99.594R	3.173	-	Nikko Europe
STERLING							
Independent Newspapers Fin.	75	Jun.2005	9.25	98.46R	9.495	+125(9½%-05)	Bankers Trust Intl.
British Gas(d)	200	Jun.2025	8.75	99.394L	8.808	+53(8¾%-17)	HSBC Markets
D-MARKS							
Kingdom of Denmark	500	Jul.2000	6.125	99.786R	6.176	-	Goldman Sachs & Co.
BHF Finance(Neths.)	200	Jul.2005	7.125	102.00	6.842	-	BHF Bank
Depo International Finance	100	Jul.2005	7.125	102.35	6.794	-	DG Bank
FRENCH FRANCS							
Sanofi(e)§	3.5bn	Jan.2000	4.00	(e1)	-	-	Société Générale
SWISS FRANCS							
Lion Corp.(a)★Φ	100	Jul.1999	1.375	100.00	-	-	Credit Suisse
Crédit Local de France	100	Jul.2005	5.00	102.65	4.682	-	Merrill Lynch Cap.Mkts.
GECC	150	Jul.2005	5.00	102.80	4.644	-	Merrill Lynch Cap.Mkts.
DSL Finance	150	Jul.2000	4.625	102.70	4.018	-	von Ernst/ SBC
Tauernkraftwerke★	130	Aug.1998	4.50	102.125	3.738	-	Bank von Ernst/ UBS
LW Rentenbank	100	Aug.2003	4.75	102.65	4.321	-	Banca del Gottardo
Eksportfinans	100	Aug.2001	4.50	102.25	4.070	-	UBS
Dn NIB(i)	100	Dec.1998	4.50	102.55	-	-	Credit Suisse
CANADIAN DOLLARS							
Province of New Brunswick	150	Jul.2000	7.625	99.55R	7.737	+28(8½%-00)	Wood Gundy
GEC Canada	100	Jul.2005	8.00	99.15R	8.127	+15(9%-04)	Hambros Bank
GUILDERS							
Ford Motor Credit Corp.	200	Jul.2000	6.375	99.94R	6.389	+40(9%-00)	ABN Amro Hoare Govett
LUXEMBOURG FRANCS							
Agik-Cger Fisco(b)	2bn	Jul.1999	6.50	101.75	6.00	-	Banque UCL
Dn NIB(i)	2bn	Oct.2002	7.125	102.75	6.62	-	BIL
Cerabank Luxembourg(c)	2bn	Jun.2000	6.75	102.05	6.25	-	BCEE/ Cerabank Lux.
Genfinance Luxembourg	2bn	Dec.2003	(c.d)	101.90	6.70	-	BGL
LW Rentenbank	2.5bn	Dec.2001	zero	68.50	6.561	-	Crédit Européen
Crédit Local de France(i)	2bn	Oct.2000	6.70	102.60	6.09	-	BGL/ Kredietbank
Co. Lux. de Telediffusion(i)	2.5bn	Oct.2000	6.75	102.55	6.15	-	BIL/ Crédit Européen
DSL Finance	2bn	Aug.2002	7.00	102.75	6.50	-	CrdEuro/ Kredietbank
Minorco(i)	2bn	Oct.2000	6.75	102.00	6.28	-	Dresdner Bank Lux.
AUSTRALIAN DOLLARS							
British Gas Intl.Finance★	200	Jun.1998	4.50#	92.275	7.419	-	Nomura International
KfW International Finance	100	Jul.2005	9.125	101.575	8.861	-	BZW
New Sth.Wales Treasury Corp.	100	Jul.2005	9.00	100.59	8.908	-	Hambros Bank
DANISH KRONER							
Nordic Investment Bank	400	Jul.2000	7.625	101.212	7.327	-	Kredietbank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ΦWith equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. L: pricing level. a) Denom: SFr50,000 + 50 wrts. Exercise price: Y498, FX: 73.60Y/SFr. b) LFr3bn launched on 30/5/95 was increased to LFr5bn. c) 6½% to 19/12/00 and 6¾% thereafter. d) Spens call provision applies. e) Conversion price: FFr310. Callable from 1/1/89, subject to 110% protection, at FFr335.79. Redeemed on 1/1/00 at FFr344.21. e1) FFr310 per bond. f) Callable on coupon dates from Jul.98 at par. f1) 3-mth Libor + 20bp. g) Puttable on 23/6/96 at par. Put waiver fee of ½% payable at maturity. g1) 6-mth Libor +500bp. h) Callable on coupon dates from Jul.02 at par. h1) 6-mth Libor +50bp to Jul.02 and +200bp thereafter. i) Over interpolated yield. j) Long 1st coupon. k) Short 1st coupon. Note: Yields are calculated on ISMA basis.

EMERGING MARKETS: This Week

The Emerging Investor / **Christopher Bobinski in Warsaw**

Poland attracts increased attention

A recent flurry of interest in establishing a presence in Poland's fledgling stock market, by fund managers as big as Templeton, reflects the increased attention that the Warsaw bourse is attracting internationally.

Warsaw is still capitalised at a mere $4bn (£2.5bn) and trades in only 51 stocks. But, with the Polish economy growing at 5 per cent a year and the mass privatisation scheme in the next 12 months set to put 400 state sector companies under private management at one blow, the market could become the largest in central Europe.

The arrival of the international funds marks an opportunity for the maturing of an exchange which has suffered volatile swings, reflecting a dearth of large institutions and continuing strong interest from mainly small domestic investors.

Now Templeton, working with Poland's Bank Handlowy, intends to seek a licence for a mutual fund concentrating on listed securities. And Credit Suisse, together with the country's largest savings bank, the PKO BP, plans to set up a fund sponsor company which, initially, will organise a zloty-denominated money market fund focusing on treasury bills and bonds, but which will move later into securities.

Creditanstalt, the Austrian bank, is ahead of the field with its partner, the Food Economy Bank as it has a licence already, and will be launching its securities-based mutual fund - Korona - next month.

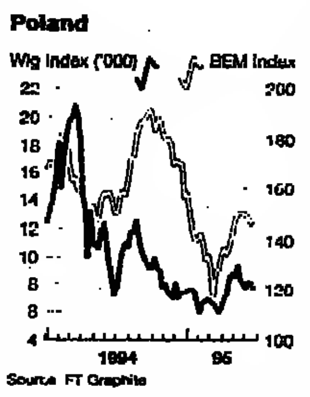
All this is being greeted calmly by Ms Alicja Malecka, the local head of Pioneer, the Boston-based fund group which showed the foresight to establish an open-ended mutual fund in Poland in 1992, becoming the country's first and only fund for investors in listed stocks.

Pioneer then rode the market roller coaster up to its main Wig index peak of 20,076 in March of last year and down to a low of 5,905, as well as up again to its present level of around the 8,000 mark.

After all this excitement Pioneer still has about 360,000 unit holders, with assets worth some $360m, of which about 40 per cent is invested in listed stocks and the rest in government bonds. This is less than last year when investor frenzy peaked and Pioneer took deposits worth $550m from 560,000 unit holders. But it will still take the competition some time to build up a stronger position, especially as some investors, says Ms Malecka, are returning to Pioneer.

The company is also moving into new fields. Last week it launched an open-ended fund which will invest solely in treasury bills, bonds and commercial paper, while shunning securities, in order to promise safer, if lower returns.

In addition, it is amassing up to $100m in the US in a closed-end investment fund aimed at Poland. This would concentrate on unlisted enterprises to take advantage of the highly-paced growth which its top analyst, Mr Krzysztof Bledowski, is predicting.



Source: FT Graphite

According to Mr Bledowski, even though inflation remains high, at an annualised 32 per cent, private sector investment is climbing fast and industry as a whole reported growth in demand for investment goods of 18 per cent in the first four months of the year; consumer goods demand in the same period rose by almost 12 per cent.

Exports are also growing fast. "Rising incomes, combined with booming investment, stable inventories and declining demand barriers will provide room for cyclical output growth in the longer term," he notes.

At Nomura in London Mr Martin Gollner, a specialist in central Europe, confirms growing interest in Poland. He cautions, however, that foreign investors seem to be waiting for new issues rather than buying already-listed stocks, whose average price earnings ratio now stand at 8.6 and range from a high for the Zywiec Brewery of 23 to a low of 4 for the Krakow-based Bank Przemyslowo Handlowy.

"The expectation is that the new issues will be cheaper initially," he says. "It's a very exciting market because of the size of the country, its growing economy and large local investor base." But, with the market's heavy weighting towards the banking sector as the government presses ahead with bank disposals, overseas investors want to see a more diverse mix of listed companies before investing in existing stocks.

It is true that Poland has many more private retail investors than other emerging markets in the area. Local brokers report about 800,000 accounts, a status needed to play the highly regulated stock exchange with its rare transactions. Many of these investors lost heavily when the market collapsed last year and some of those left with savings have been queueing to buy government bonds, deemed safer even than bank deposits. But the past few months have shown that demand is ready to return, as in April when the Wig rose by 40 per cent and turnover amounted to a daily average of about $80m.

Now investors are waiting to see how the government, led by former communists, handles a crucial capital gains tax decision; this is perceived as a test of the government's commitment to the development of the securities market.

The end of this year sees the end of a blanket relief on capital gains for individual investors brought in four years ago. The privatisation ministry has a disposal revenue target of 1.5bn zlotys ($650m) to fulfil this year, some of this from public offers. It needs a buoyant market to be able to float future issues. Not surprisingly, the ministry argues that the tax break should be extended to the end of the century.

This radical suggestion has been rejected by the treasury, however, and the end of this month should see a government decision on whether to tax capital gains at a flat 20 per cent rate from the beginning of 1996 or 1998.

Under the proposed legislation, purchasers of stocks who keep them for six months would not have to pay the tax. Purchasers of bonds would be obliged to hang on to them for one year to obtain the tax relief. Investors would also be allowed to set losses off against capital gains over three years under the proposed rules.

News round-up

■ Taiwan

Taiwan's deputy finance minister, Mr Day Linin, said late on Friday that he disagreed with a Securities and Exchange Commission plan to urge government pension funds to enter the stock market to support it.

This followed publication of a six-point rescue plan for the plunging stock market by the SEC, which included encouraging the raising of mutual funds, speeding up screening for the establishment of new trust fund companies and urging government pension funds and postal funds to enter the stock market. This left Taipei's weighted index up 1.55 per cent on Friday. However, in a separate development, Taiwan's central bank governor, Mr Sheu Yuan-dong, told journalists that the bank was reconsidering when to open the local stock market to foreign individual investors and added that limits would need to be imposed on the amount they invested.

■ China

The decision of the Chinese securities authorities to reopen the Shanghai and Shenzhen domestic equity markets, authorising a Yn5.5bn quota of new class A shares for potential issues to domestic investors, gave the bourses a bad day last Thursday, when their A share indices fell by 6.4 per cent, and 5 per cent respectively.

The market settled down on Friday and Shenzhen As even managed a token, 0.9 per cent recovery. But the suspicion remained that, having banned new A share issues last July when the market fell to historic lows, the authorities were aiming to control the market at will.

■ Uganda

Mr Charles Kikonyogo, governor of Uganda's central bank, said on a visit to London that the country hoped to have a stock market by early next year. That should help the country's privatisation programme, said the governor, who predicted continued strong growth on the back of economic reform and stabilisation, and an improving trade balance.

■ India

India should let provident and pension funds invest in shares to improve the liquidity of its stock markets, said Mr S.L. Rao, director-general of the National Council of Applied Economic Research, a government-funded think tank. Mr Rao said that the government's inability to cut its spending had made it dependent on those cheap sources of funds, and that India's share prices had been extremely volatile largely because of low liquidity.

■ Israel

Tel Aviv, currently, has the most attractive stock market in the world, said Mr Michael Howell, global strategist at Baring Securities, last week. "Looking at 50 markets around the world Israel comes out as most attractive," he said. Japan and Brazil were next in the ranking while Canada came in last.

Baring's calculations were based on a price earnings to five-year growth ratio.

■ Pakistan

Wednesday's federal budget, which withdrew a tax exemption for "bonus" issues and introduced a 2 per cent withholding tax on bearer certificates, was not well received by the Karachi market. Karachi ran a post-budget session which saw the KSE index fall 1.3 per cent on the day, and followed it with a 1.4 per cent drop on Thursday.

Edited by William Cochrane. Further coverage of emerging markets appears daily on the World Stock Markets page.

Baring Securities emerging markets indices

Index	16/6/95	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (352)	146.53	-1.32	-0.89	-4.27	-2.83	-11.50	-7.28
Latin America							
Argentina (23)	79.72	-0.37	-0.46	-9.64	-10.79	-6.39	-7.42
Brazil (23)	174.18	-4.40	-2.46	-12.44	-6.66	-35.19	-18.81
Chile (13)	255.66	-7.24	-3.11	-11.11	-4.69	+14.09	+6.66
Mexico (25)	66.59	+0.71	+1.08	-4.29	-6.05	-31.04	-31.80
Peru (16)	698.96	-30.09	-3.24	-58.94	-6.15	+50.32	+5.93
Latin America (100)	115.82	-1.72	-1.46	-6.40	-6.76	-22.95	-16.54
Europe							
Greece (18)	105.32	+1.00	+0.96	-1.74	+1.66	+18.33	+21.07
Portugal (23)	123.09	-1.38	-1.11	+0.13	+0.10	+6.81	+5.86
Turkey (22)	137.51	-4.28	-3.02	+11.50	+9.13	+61.40	+80.67
South Africa	132.53	-0.01	-0.01	-4.67	-3.41	+4.59	+3.58
Europe (95)	114.68	-0.39	-0.34	-1.88	-1.61	+16.98	+17.38
Asia							
Indonesia (22)	139.75	-2.61	-1.83	+6.12	+4.58	+6.06	+4.54
Korea (24)	136.55	-0.30	-0.22	+0.06	+0.04	-3.34	-2.39
Malaysia (22)	250.91	+1.79	+0.72	+9.42	+3.90	+40.05	+18.99
Pakistan (15)	85.71	+0.67	+0.79	+8.33	+10.75	-20.42	-19.23
Philippines (12)	284.83	-2.75	-0.96	+0.38	+0.13	+2.70	+0.96
Thailand (25)	266.65	-3.29	-1.22	-1.87	-0.70	+15.01	+5.96
Taiwan (32)	143.71	-3.56	-2.42	-8.70	-5.71	-40.44	-21.96
Asia (157)	217.62	-1.20	-0.55	+1.99	+0.92	+7.20	+3.42

All indices in $ terms. January 7th 1992=100. Source: Baring Securities

CURRENCIES

Markets remain on their guard

Foreign exchange markets are likely to remain on their guard this week, in spite of the communique from the G7 summit in Halifax, Nova Scotia, offering only fleeting reference to currencies.

Little was expected from the G7, and little was delivered. "We endorse the conclusions reached by the G7 finance ministers in Washington and ask them to maintain close co-operation in economic surveillance and in exchange markets," was all the communique devoted to currencies.

But with all the G7 leaders and finance ministers having been in conclave for a few days, markets will be wary of any post-Halifax initiatives emerging. These could include further foreign exchange intervention, a deal on the US-Japan trade dispute, or a fiscal package in Japan.

While dollar sentiment remains mostly negative, there is a view that the dollar is forming a cyclical bottom, with any further weakness to be used as a buying opportunity.

The main short-term influence is likely to be the trade dispute, with only ten days to the deadline for implementing the 100 per cent tariff against luxury cars.

Mr Dave Munro, chief US economist at High Frequency Economics in New York, says: "The bad news is that neither side has a basis in principle or in domestic politics to compromise. The good news is that both sides are avoiding inflammatory words and have not let the confrontation widen."

In terms of US data, Wednesday is the big day, as it will see the release of the beige book, ahead of the next FOMC meeting, and trade figures.

In the UK the main focus will be on the release of the minutes from the May 5 Clarke-George meeting, which are expected to reflect a difference of opinion on interest rates. The behaviour of the dollar, however, and UK politics are likely to have more influence on sterling.

Source: Bank of England

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, June 16, 1995. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	5692.32	3540.00	2527.51	4167.61
Albania	(Lek)	168.679	104.900	74.6911	124.091
Algeria	(Dinar)	73.3167	45.5950	32.5616	53.9383
Andorra	(French Fr)	7.9084	4.9183	3.5113	5.8161
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Cty/Africa	(CFA Fr)	790.840	491.830	351.132	581.806
Fr. Guiana	(Local Fr)	7.9084	4.9183	3.5113	5.8181
Fr. Pacific Is	(CFP Fr)	144.217	89.6872	64.0303	106.095
Gabon	(CFA Fr)	790.840	491.830	351.132	581.806
Gambia	(Dalasi)	15.3564	9.5500	6.8189	11.2971

		£ STG	US $	D-MARK	YEN (X 100)
Germany	(D-Mark)	2.2523	1.4007	1	1.6565
Ghana	(Cedi)	1854.02	1153.00	823.160	1363.83
Gibraltar	(Gib £)	1	0.6218	0.4440	0.7357
Greece	(Drachma)	363.477	226.050	161.384	267.404
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

		£ STG
Pakistan	(Pak. Rupee)	49.7464
Panama	(Balboa)	1.6080
Papua New Guinea	(Kina)	2.0856
Paraguay	(Guarani)	3163.74
[illegible]	[illegible]	[illegible]

Special Drawing Rights June 15, 1995 Utd Kingdom £0.975842 Utd States $1.56088 Germany DM N/A Japan Y131.737 European Currency Unit Rates June 10, 1995 Utd Kingdom £0.828167 Utd States $1.32797 Germany DM1.88646 Japan Y112.273

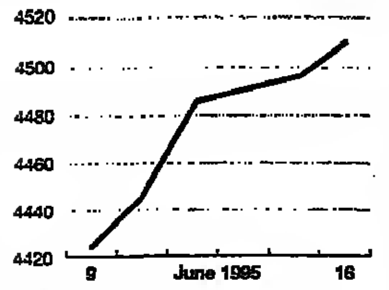
Abbreviations: (a) Free rate, (m) Market rate; (o) Official rate; (p) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate; $ Russia applies to states in the Rouble Zone. (1) Yugoslav Dinar rate n/a. (2) Official fixed rate introduced on May 22. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4360/5.
To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. Calls charged at 39p/minute cheap rate, 49p/minute at all other times
Friday, June 16, 1995

EQUITY MARKETS: This Week

NEW YORK — Lisa Bransten

Dearth of data set to turn focus on Fed

Dow Jones Industrial Average



Source: FT Graphite

Central bankers seldom make reckless comments, but this week members of the Federal Reserve will have to be more careful than ever.

For more than two weeks, investors have led shares to new highs on the presumption that this month's string of weak economic data would prompt the Fed to start easing interest rates. But several rallies have been reversed by Fed officials, especially Mr Alan Greenspan, the Fed's chairman, signalling that they did not intend to lower interest rates in the near term.

This week there is little due in the way of economic statistics, so investors will be watching the Fed closely for any signals on the course of monetary policy.

The Fed's Beige Book – a report on the state of the economy prepared in advance of the Fed's Open Market Committee meetings – will be released on Wednesday, and it will certainly be scrutinised for hints about how central bankers see the economy.

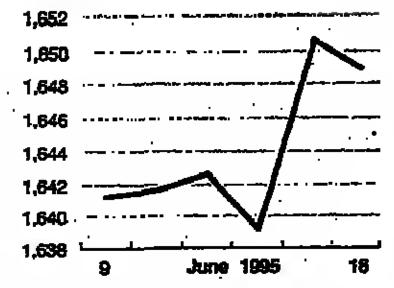
The most important statistics of the week come on Friday, when the Commerce Department puts out figures on May durable goods orders. The median economic forecast is for orders to have grown by about 0.4 per cent to reverse April's 4 per cent decline. But estimates are widely varied. Economists at Donaldson Lufkin & Jenrette, for example, believe orders will have declined by another 0.5 per cent in May.

Also due this week are figures on bousing starts and the trade deficit.

LONDON — Philip Coggan

May minutes awaited for clue on rates

FT-SE-A All-Share index



Source: FT Graphite

The London equity market starts the week looking distinctly tired after a rally which has carried the FT-SE 100 index 400 points higher since early March.

The rally has become narrowly based. While the expiry of futures and options contracts buoyed up the Footsie last week, the broader FT-SE Mid 250 index fell 0.5 per cent.

The rise in gilt yields above 8 per cent has removed one underpinning of the market and last week some slightly ambiguous comments from Mr Kenneth Clarke, the chancellor of the exchequer, about the inflation target unsettled investors, as did a modest rise in inflation itself.

The economic statistics being published this week are mostly minor and the main news of interest is likely to be the publication of the minutes of the May meeting between Mr Clarke and Mr Eddie George, the governor of the Bank of England. The duo have been playing down the significance of their disagreement, but markets will be analysing their arguments to see whether rates may still have to rise later in the year.

On the corporate front, one of the market's favourite bid rumours was confirmed last week when Kleinwort Benson announced merger discussions with Dresdner Bank. Dealers immediately began searching for further candidates and pharmaceuticals company Zeneca is still regarded as being in the frame.

OTHER MARKETS

FRANKFURT

After several months of ignoring falling interest rates, they have now become the determining factor for the German market, says UBS. The bank does not expect further support from lower rates in the short term, following the Bundesbank's decision last Wednesday to leave rates unchanged.

Instead, the market might begin to worry about another round of earnings downgrades, on the back of the deterioration of the economic outlook. Thus, the market has entered a period of transition where investors will switch from cyclicals to defensive and interest rate-sensitive stocks. Though UBS favours rate-sensitives in general, it is concerned about the fundamental outlook for banks, so continues to avoid over-exposure.

On the corporate front, Wednesday's analysts' meeting at Preussag Stahl should help clarify the confusion surrounding the outlook for steel prices after the Thyssen meeting a fortnight ago. UBS says any suggestion of softening steel prices in Europe in 1996 will raise worries about steel stocks.

MILAN

The re-emergence last week of Mr Silvio Berlusconi as a significant force in Italian politics, after the TV ownership referendum, unsettled the market. The mood, fuelled by Mr Berlusconi's immediate calls for an autumn election, is likely to feed through to the coming week.

ABN-Amro Hoare Govett says an uneasy calm bad settled on the political scene in May on the belief that the technocrat government of Mr Lamberto Dini could continue through into 1996. This promise of relative political stability helped to support the lira and bond market, with positive repercussions for equities.

Now, however, there is a growing threat to the calm from Mr Berlusconi's election demands, which have drawn support from other members of parliament. ABN-Amro says Mr Dini will probably resign after the passage of pension reform legislation and expects a general election in the autumn. This should be preceded by the 1996 budget law, whose deadline is September 30, although this could be an obstacle during the election campaign.

PARIS

In a week largely bereft of corporate reports, the market will be awaiting Thursday's announcement from Mr Alain Juppé, the prime minister, of a key package of measures to boost employment.

Analysts expect the measures to include grants to companies that take on long-term unemployed workers and contribution breaks on social security payments. Mr Juppé's new conservative government has said that it will give priority to the fight against unemployment and has set a target of creating 1m jobs over the next three years.

ZURICH

The Swiss insurers which have been finding favour in recent weeks with domestic and foreign investors as interest rates have fallen will be meeting analysts to outline future strategy this week. Winterthur meets financial analysts on Thursday, and Swiss Re on Friday.

Talk of a further reduction in the discount rate has been in the air, but many analysts reckon that the Swiss National Bank will follow its usual practice of awaiting a move from the Bundesbank first.

TOKYO

Life assurers acted to calm fears last Friday thet they were liquidating stock holdings, thereby depressing the market further. Mr Takahide Sakurai, chairman of the Life Insurance Association, said that the companies would remain stable stock holders, *writes Emiko Terazono.*

However, he also said that the life assurers were lowering the ratio of stock holdings to total assets from 20 per cent to 17 per cent, the level seen in the early 1980s before the last economic boom.

While the current trend among investors is to try to guess what sort of stocks the life assurers have on their portfolios, this may not leave investors with shares that had the potential to rise higher.

What investors must consider, says Mr Peter Tasker of Kleinwort Benson in Tokyo, is that even if the ministry of finance were to introduce a scheme to solve the banks' bad debt problem, it would not resolve economic and corporate earnings weakness.

Rather than a portfolio of earnings-driven stocks, investors may need to focus on government policy-driven areas such as real estate, he said.

HONG KONG

Hong Kong share prices are expected to continue to consolidate in the holiday-shortened week in the absence of local or corporate news. Trading resumes tomorrow, following today's public holiday, *writes Louise Lucas.*

Investors will mostly take their cue from overseas, where growing expectations of a cut in US interest rates stand to release renewed bouts of buying.

Hong Kong would be one beneficiary, both in terms of attracting cash and because its own rates track those of the US through the currency peg. More local companies are expected to sell shares and book profits, reflecting the perception that the market is unlikely to trade sharply higher in the near term.

The market closed higher on Friday, with the Hang Seng index rising 51.95 to 9,313.95, for a 0.5 per cent advance over the week, with firm resistance having been met at the 9,500 level.

Volatility is likely to set in towards the end of this week, ahead of the June futures expiry the following Thursday.

Compiled by Michael Morgan

International offerings

Qantas share sale heralds spate of Australian deals

On Thursday, if all goes to plan, a prospectus for the sale of shares in Qantas, Australia's flagship airline, will be unveiled.

The jury is still out on whether the Australian federal government, which is selling its remaining 75 per cent interest in the carrier, can hope to realise A$2bn. But even if proceeds fall short of this target figure, Qantas will still be one of the biggest equity issues to hit the Australian stock market – surpassed, in recent times, only by the A$2.45bn Woolworths float.

The airline, however, is not flying solo. Its share offering forms the largest in a pack of equity capital raisings which have suddenly surfaced Down Under – a sharp turnround from earlier this year.

Between January and April, new equity capital raisings averaged less than A$500m a month, compared with almost A$1.2bn in the latter half of 1994. In May, the amount raised recovered to A$1.26bn. Then, in the past few weeks, fund managers have been confronted by a series of chunky, high-profile offerings.

Advance Bank, the Sydney-based regional bank, has announced a A$563m rights issue to help fund its A$730m purchase of Bank of South Australia. Coca-Cola Amatil, the Sydney-based soft drinks group in which Coca-Cola of the US is the largest shareholder, has launched a A$670m rights issue.

And the initial investors in Sydney Harbour Casino, the consortium building a A$1.2bn Habourside gaming palace, have offered a portion of their holdings to the public in a A$147m sale, thus allowing SHC to list later this month.

If demand for prospectuses is any guide, this float, at least, hit the jackpot: within hours, there were signs pasted to the doors of Bain & Co, saying that the stockbroker had run out.

Reasons for the uptick in equity issues are worth examination – not least because they suggest that the flow of large, lumpy offerings will persist for a while yet.

In contrast to 18 months ago, the current upsurge has little to do with the state of the market generally. The Australian stock market has gone nowhere over the past year – although it has recovered from February's lows – and the supply of small, frothy initial public offerings is minimal.

Instead, current offerings have more to do with a general restructuring of the Australian economy. Privatisation, and the desire by both federal and state governments to move to budgetary balance, is one obvious factor.

The Qantas proceeds are critical to the federal government's arithmetic. Similarly, Advance Bank's cash call followed success in the South Australian's government auction for BankSA.

This trend is likely to continue, although with many Australians still supportive of public ownership and union opposition to privatisation entrenched, state and federal governments, of whatever political line, will probably tread warily.

The federal government, for example, has already flagged its intention to sell its remaining 50.4 per cent stake in Commonwealth Bank. The sale, in two tranches spread over the 1996 and 1997 financial years, is expected to raise upwards of A$4bn.

At the state level, the Western Australian government is keeping its options open on a float – as opposed to a trade sale – of BankWest. In Victoria, the gradual and piecemeal handover of electricity assets to the private sector will probably prompt some equity offerings. State-owned TABs – chains of government-run betting shops – could also make stock market appearances. Victoria's TABcorp listed last year.

More indirectly, the desire to pump competition into areas of the economy previously controlled by state monopolies is creating another set of potential stock market candidates.

Optus, for example, formed as Australia's second telecommunications carrier in 1992, has already flagged its intention to float, possibly this year.

The larger corporate offerings, meanwhile, have generally been pegged to specific expansion plans, often overseas – which may be testament to the increasingly "international" approach of Australia's corporate sector.

Coca-Cola Amatil, which has been building up blocks of bottling operations in both Asia-Pacific and eastern Europe, is one case in point; Western Mining's A$719.3m cash call last year, to fund a stepped-up interest in international bauxite and alumina operations, was another.

Meanwhile, one of the largest IPOs this year has come from Novus Petroleum, a newly-formed oil company targeting properties in Asia.

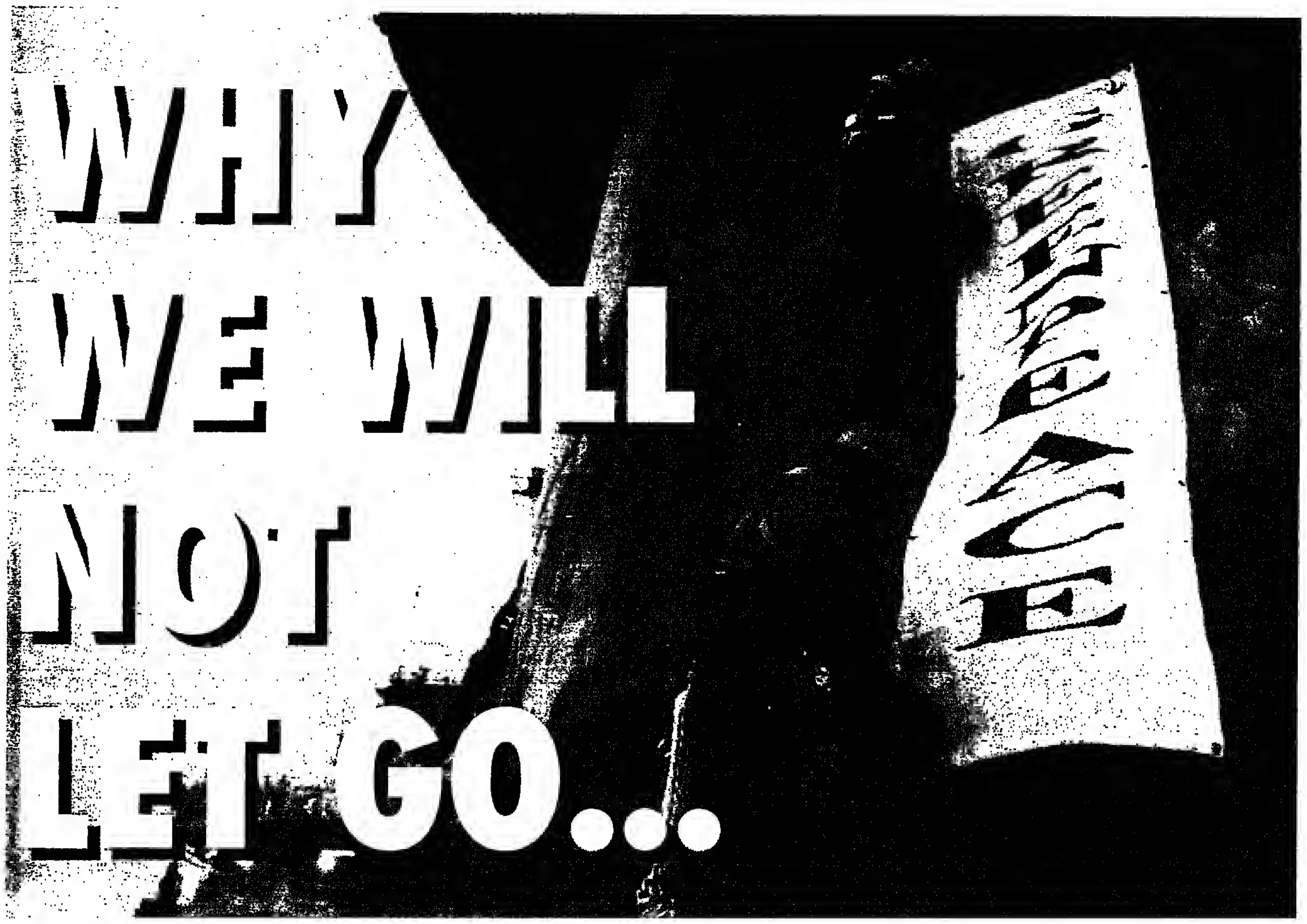
Already, there have been some fears that this surge in activity will create indigestion. For the moment, however, such concerns look misplaced.

The Australian Stock Exchange has absorbed equity raisings of more than A$3bn in a single month in the past, the highest figure being A$3.8bn in June 1987. The Qantas float was well-flagged and, thanks to an 11th-hour change in foreign ownership restrictions, about one-third of the shares on offer can be sold to overseas investors.

In fact, latest forecasts from Sydney-based Macquarie Bank suggest total market equity raisings in the year to end-June 1996 will be about A$14.2bn, compared with more than A$24bn in 1993–94 and just A$10.7bn in 1994–95. Ms Belinda Hutchinson, executive director at Macquarie, suggests that the market could actually bear well in excess of A$14.2bn – perhaps something closer to A$17bn.

While new equity raisings are enjoying something of a renaissance, so too are share buybacks. In the case of Commonwealth Bank, equity offerings and buybacks could even coincide: no sooner had the government's share sale been announced than the bank has signalled that a A$1bn buyback could be undertaken in conjunction with this.

Nikki Tait



Why is Greenpeace hell-bent on stopping Shell dumping the Brent Spar?

To us, it's a simple matter of integrity.

Nothing will dissuade us from our commitment to protect the sea from further pollution. And that includes litter on a grand scale.

We will not have the sea fouled with the leftovers of the off-shore oil industry.

For Shell, it's not so simple.

On the one hand, they tell us not to litter. This week, Shell celebrates 25 years of its Better Britain Clean Up campaign.

On the other hand, they want to litter the ocean floor on an unimaginable scale.

So, if, thanks to Shell, we have the good sense to disapprove of dumping supermarket trolleys in village ponds, how can we be expected to condone the dumping of the Brent Spar into the sea?

It's time for Shell to own up to its corporate responsibilities.

Or admit to what is now inevitable – the day Shell sinks the Brent Spar, Shell's reputation sinks with it.

GREENPEACE

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 16 / Sch)

BELGIUM/LUXEMBOURG (Jun 16 / Frs.)

CZECH REP (Jun 16 / Korona)

DENMARK (Jun 16 / Kr)

FINLAND (Jun 16 / Mka)

FRANCE (Jun 16 / Frs.)

GERMANY (Jun 16 / Dm.)

GREECE (Jun 16 / Drachma)

ITALY (Jun 16 / Lira)

NETHERLANDS (Jun 16 / Fls.)

NORWAY (Jun 16 / Kroner)

POLAND (Jun 14 / Zloty)

PORTUGAL (Jun 16 / Escudo)

SPAIN (Jun 16 / Pts.)

SWEDEN (Jun 16 / Kronor)

SWITZERLAND (Jun 16 / Frs.)

TURKEY (Jun 16 / Tk Lira)

PACIFIC

JAPAN (Jun 16 / Yen)

AUSTRALIA (Jun 16 / Aust$)

HONG KONG (Jun 16 / H.K.$)

INDONESIA (Jun 16 / Rupiah)

MALAYSIA (Jun 16 / MYR)

NEW ZEALAND (Jun 16 / NZ $)

SINGAPORE (Jun 16 / S$)

SOUTH KOREA (Jun 16 / Won)

TAIWAN (Jun 16 / TW $)

THAILAND (Jun 16 / Baht)

AFRICA

SOUTH AFRICA (Jun 15 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jun 16 / Can $)

MONTREAL (Jun 16 / Can $) 4 pm close

INDICES

	Jun 16	Jun 15	Jun 14	1995 High		1995 Low	
Argentina							
General (29/12/77)	14198.05	14273.53	14179.90	16531.10	2/1	9831.09	9/3
Australia							
All Ordinaries(1/1/80)	1974.4	1961.1	1966.5	2077.50	9/5	1823.30	8/2
All Mining(1/1/80)	877.1	853.4	851.9	952.50	19/4	795.30	8/2
Austria							
Credit Aktien(30/12/84)	371.48	(c)	374.25	385.42	2/1	350.32	30/3
Traded Index(2/1/91)	1008.85	(c)	1016.62	1056.31	2/1	934.83	30/3
Belgium							
BEL20 (1/1/91)	1420.82	1418.86	1411.53	1468.74	12/5	1271.53	9/3
Brazil							
Bovespa (29/12/83)	37179.0	(c)	36650.0	43190.00	2/1	21382.00	9/3
Canada							
Metals Mins ♦(1975)	4326.24	4338.92	4304.35	4391.48	6/6	3808.63	1/3
Composite ♦ (1975)	4525.30	4518.50	4494.30	4525.30	16/6	3991.41	30/1
Portfolio§§ (4/1/83)	2231.49	2229.52	2219.63	2231.49	16/6	1948.38	31/1
Chile							
IGPA Gen (31/12/80)	6023.9	(c)	6061.5†	6181.80	6/6	4576.90	9/3
Denmark							
CopenhagenSE(3/1/83)	353.83	354.85	356.66	360.87	26/5	330.01	29/3
Finland							
HEX General(28/12/90)	1885.1	1840.4	1853.3	1940.30	10/1	1555.30	29/3
France							
SBF 250 (31/12/90)	1268.53	1276.52	1264.27	1322.30	12/5	1153.14	10/3
CAC 40(31/12/87)	1904.86	1920.70	1893.85	2017.27	12/5	1721.80	13/3
Germany							
FAZ Aktien(31/12/58)	780.41	(c)	783.41	795.81	16/2	708.87	30/3
Commerzbank(1/12/53)	2241.0	(c)	2249.2	2289.00	16/2	2018.70	30/3
DAX (30/12/87)‡	2119.79	(c)	2128.02	2146.40	6/6	1910.98	28/3
Greece							
Athens SE(31/12/80)	914.67	920.42	910.40	985.01	8/5	787.15	16/3
Hong Kong							
Hang Seng(31/7/64)	9313.95	9262.00	9364.77	9570.37	5/6	6967.93	23/1
India							
BSE Sens.(1979)	3349.47	3315.88†	3324.86	3932.09	2/1	3015.67	2/5
Indonesia							
Jakarta Comp.(10/8/82)	486.04	487.27	489.32	497.28	5/6	414.21	19/4
Ireland							
ISEQ Overall(4/1/88)	1955.60	1953.41	1956.21	1980.08	8/6	1813.59	23/1
Italy							
Banca Comm Ital (1972)	610.66	615.42	606.81	680.54	10/2	587.59	23/3
MIB General (2/1/95)	968.0	973.0	960.0	1078.00	10/2	929.00	23/3
Japan							
Nikkei 225 (16/5/49)	14703.17	14867.26	14660.40	19723.06	2/1	14599.68	13/6
Nikkei 300 (1/10/82)	224.76	225.86	223.10	287.17	2/1	222.26	13/6
Topix (4/1/68)	1203.67	1208.03	1196.33	1559.09	2/1	1193.16	13/6
2nd Section (4/1/68)	1464.21	1455.98	1453.33	2133.66	2/1	1441.90	13/6
Malaysia							
KLSE Comp.(4/4/86)	1064.59	1058.44	1049.97	1065.04	5/6	849.67	24/1
Mexico							
IPC (Nov 1978)	(u)	1986.16	1985.86	2354.25	2/1	1447.52	27/2
Netherland							
CBS TtlRtnGen(End 83)	469.4	471.3	469.5	478.10	1/6	422.90	23/3
CBS All Shr (End 83)	287.5	288.7	287.6	291.70	1/6	265.20	23/3
New Zealand							
Cap. 40 (1/7/86)	2054.36	2073.15	2084.21	2155.79	18/5	1901.43	5/1
Norway							
Oslo SE(Ind)(2/1/83)	1193.98	1183.42	1179.86	1193.98	16/6	1036.00	10/3
Philippines							
Manila Comp (2/1/85)	2790.31	2782.69	2810.66	2877.33	6/6	2248.39	27/3
Portugal							
BTA (1977)	2780.7	(c)	2771.6	2911.60	9/1	2682.40	26/1
Singapore							
SES All-S'pore(2/4/75)	518.90	522.54	516.77	535.06	5/1	472.90	23/1
South Africa							
JSE Gold (28/9/78)	(c)	1453.9♥	1402.5	2023.00	2/1	1317.20	22/5
JSE Indl. (28/9/78)	(c)	6780.5♥	6791.5	7055.20	3/5	6222.00	31/1
South Korea							
KoreaCmpEx(4/1/80)**	879.25	880.92	886.56	1027.37	2/1	847.09	27/5
Spain							
Madrid SE (30/12/85)	294.30	295.01	295.47	302.20	24/5	264.06	23/3
Sweden							
AffarsvarldenGen (1/2/37)	1595.8	1588.4	1588.0	1609.69	2/6	1439.80	29/3
Switzerland							
Swiss Bk Ind (31/12/58)	1293.88	1289.86	1298.20	1308.37	1/6	1174.63	13/3
SBC General (1/4/87)	973.46	980.17	978.25	984.16	7/6	870.58	13/3
Taiwan							
WeightedPr.(30/6/66)**	5443.43	5360.09	5413.74	7124.66	3/1	5360.09	15/6
Thailand							
Bangkok SET (30/4/75)	1382.86	1381.57	1387.88	1408.26	5/6	1135.69	16/3
Turkey							
Istanbul Cmp.(Jan 1986)	52489.3	50466.6	52344.7	54653.80	21/4	24644.31	23/1
WORLD							
MS Capital Int (1/1/70)§	668.3*	667.6	666.8	680.10	8/5	598.21	23/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1347.80	1356.74	1351.12	1380.48	16/5	1222.41	13/3
Euro Top-100 (26/6/90)	1224.99	1230.97	1225.34	1244.92	8/5	1114.54	10/3
JCapitalDrgns (31/12/86)	(u)	336.81	338.32	347.20	5/6	292.07	23/1
Barings Emerg.(7/1/92)	146.53	148.23	147.50	158.07	2/1	117.15	10/3

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x index)							
Jun	1905.0	1902.0	-14.0	1906.0	1883.0	19,834	43,381
Jul	1909.5	1904.5	-17.0	1909.5	1883.0	175	8,874
DAX							
Sep	2149.5	2155.0	+7.0	2156.0	2127.5	15,979	-
Dec	2165.5	2176.0	+0.5	2169.5	2154.0	49	-
OMX							
Jun	1242.50	1252.25	+10.25	1253.00	1236.50	4,825	11,933
Jul	1251.00	1261.00	+7.50	1261.00	1248.00	2,684	5,048
SOFFEX							
Jun	2788.0	2796.4	-4.6	2797.5	2788.0	2,931	9,278
Jul	2804.0	2780.0	-29.5	2804.0	2769.0	7,818	13,973
S&P 500							
Sep	542.55	543.80	+1.10	544.90	541.20	90,859	186,741
Dec	545.60	547.85	+1.10	548.60	545.60	225	6,392
Nikkei 225							
Sep	15050.0	14720.0	-130.0	15060.0	14680.0	24,843	102,123
Dec	14720.0	14720.0	+20.0	14720.0	14720.0	1	701

Open interest figures for previous day.

** Sat June 10: Taiwan Weighted Price 5641.19; Korea Comp Ex 889.31. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Jun 18 - 2126.06 -6.72.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Jun 16	Jun 15	Jun 14	1995 High	1995 Low	Since compilation High	Since compilation Low
Industrials	4510.79	4496.27	4491.08	4510.79 (16/6)	3832.08 (30/1)	4510.79 (16/6/95)	41.22 (2/7/32)
Home Bonds	102.24	102.41	102.32	102.41 (15/6)	93.63 (3/1)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1708.07	1703.51	1689.55	1708.07 (16/6)	1473.19 (3/1)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	202.35	202.94	203.93	209.88 (5/6)	183.03 (3/1)	523.65 (20/5/65)	10.50 (8/4/32)

DJ Ind. Day's high (u) (4527.74) Low (u) (4466.67) (Theoretical♦)
Day's high 4517.02 (4510.45) Low 4498.27 (4482.09) (Actual♦)

Standard and Poors	Jun 16	Jun 15	Jun 14	1995 High	1995 Low	Since compilation High	Since compilation Low
Composite ‡	539.83	537.12	536.47	539.83 (16/6)	459.11 (3/1)	539.83 (16/6/95)	4.40 (1/6/32)
Industrials♥	643.26	639.51	638.05	643.26 (16/6)	546.28 (3/1)	643.26 (16/6/95)	3.62 (21/6/32)
Financial	51.11	51.20	51.43	52.57 (5/6)	41.41 (3/1)	52.57 (5/6/95)	8.64 (1/10/74)
NYSE Comp.	289.98	288.76	288.35	289.98 (16/6)	250.73 (3/1)	289.95 (16/6/95)	4.46 (25/4/42)
Amex Mkt Val	495.40	494.72	497.19	497.10 (14/6)	433.12 (6/1)	497.19 (14/6/95)	29.31 (9/12/72)
NASDAQ Cmp	908.64	902.68	895.72	908.64 (16/6)	743.58 (3/1)	908.64 (16/6/95)	54.87 (31/10/72)

RATIOS

	Jun 9	Jun 2	May 26	Year ago
Dow Jones Ind. Div. Yield	2.50	2.54	2.53	2.68
	Jun 14	Jun 7	May 31	Year ago
S & P Ind. Div. yield	2.17	2.20	2.19	2.42
S & P Ind. P/E ratio	17.80	17.65	17.72	23.51

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Home Depot	7,099,800	40⅝	-1¼
Wal-Mart	6,630,100	25½	+⅜
Gen Elec	4,951,400	57½	-¼
Time Warner	4,738,500	40½	+1⅞
AT & T	4,441,200	52	+½
Hanson	4,402,900	18⅛	-⅛
Philip Morris	4,389,700	73¾	+1
Micron	4,375,600	50	+½
Merck	3,885,600	48⅝	+⅞
Coca Cola	3,717,800	62⅛	+1

TRADING ACTIVITY

● Volume (million)	Jun 16	Jun 15	Jun 14
New York SE	442.740	334.640	330.221
Amex	19.777	22.388	19.821
NASDAQ	(u)	423.062	433.923
NYSE			
Issues Traded	2,983	2,986	2,987
Rises	1,087	1,182	1,066
Falls	1,069	984	1,152
Unchanged	827	820	769
New Highs	129	156	113
New Lows	11	19	11

TOKYO - MOST ACTIVE STOCKS: Friday, June 16, 1995

	Stocks Traded	Closing Prices	Change on day
Fudo Const	18.0m	813	-16
Kinki Sharyo	8.0m	580	+9
Hanwa	6.3m	170	-5
Maruyama Mfg	5.8m	463	-42
Nip Steel	5.1m	286	+1
Toshiba	3.9m	526	+5
Nabco	3.3m	455	+46
Sakura Bnk	3.2m	932	+7
Hitachi	3.0m	805	-10
NKK	2.8m	197	+1

Prices supplied by Telekurs

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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Jun 16		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng Index
Europe													
Austria	(Sch)	15.8373	+0.0115	288 - 458	15.9682	15.7977	15.8142	1.8	15.767	1.8	-	-	107.3
Belgium	(BFr)	46.2173	+0.0139	928 - 418	46.3420	46.1510	46.1523	1.7	46.0223	1.7	45.4123	1.7	100.0
Denmark	(DKr)	8.7948	+0.0175	900 - 995	8.8075	8.7534	8.7984	-0.5	8.7902	0.2	8.7593	0.4	110.3
Finland	(FM)	6.9174	+0.02	151 - 197	6.9330	6.8810	-	-	-	-	-	-	97.2
France	(FFr)	7.9084	+0.013	059 - 109	7.9220	7.8791	7.9163	-1.2	7.9209	-0.9	7.8945	0.2	108.9
Germany	(DM)	2.2522	+0.0016	511 - 532	2.2574	2.2471	2.2488	1.8	2.2405	2.1	2.1981	2.4	112.4
Greece	(Dr)	363.477	+0.261	996 - 958	365.626	362.158	-	-	-	-	-	-	68.7
Ireland	(I£)	0.9830	+0.0009	820 - 840	0.9845	0.9811	0.9826	0.5	0.9824	0.2	0.9827	0.0	97.8
Italy	(L)	2650.30	+17.72	852 - 209	2656.08	2630.31	2659.8	-4.3	2677.3	-4.1	2748.8	-3.7	67.0
Luxembourg	(LFr)	46.2173	-0.0139	928 - 418	46.3420	46.1510	46.1523	1.7	46.0223	1.7	45.4123	1.7	109.9
Netherlands	(Fl)	2.5204	+0.0003	194 - 213	2.5265	2.5143	2.5163	2.0	2.5126	1.2	2.4602	2.4	109.7
Norway	(NKr)	10.0320	+0.0282	258 - 382	10.0404	9.9760	10.0233	1.0	9.9997	1.3	9.8724	1.6	99.2
Portugal	(Es)	237.060	+0.248	929 - 192	237.507	236.550	236.195	4.4	238.385	-3.9	-	-	95.8
Spain	(Pta)	195.607	+0.876	484 - 730	195.076	194.741	196.107	-3.1	197.182	-3.2	202.207	-3.4	81.1
Sweden	(SKr)	11.6627	+0.0524	527 - 726	11.6846	11.5997	11.665	-0.2	11.6695	-0.2	11.6881	-0.2	77.9
Switzerland	(SFr)	1.8651	+0.004	635 - 663	1.8702	1.8615	1.8602	3.2	1.8502	3.2	1.8018	3.4	113.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.8
Ecu	-	1.2176	+0.0005	171 - 181	1.2205	1.2158	1.2177	0.0	1.2164	0.4	1.2092	0.7	-
SDR†	-	1.02476	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6077	+0.0123	073 - 081	1.6101	1.5972	-	-	-	-	-	-	-
Brazil	(R$)	1.4608	+0.018	587 - 610	1.4624	1.4489	-	-	-	-	-	-	-
Canada	(C$)	2.2220	+0.0240	211 - 228	2.2246	2.2052	2.2245	-1.4	2.2273	-0.9	2.2181	0.2	81.8
Mexico	(New Peso)	9.8452	+0.0451	189 - 715	9.8724	9.8885	-	-	-	-	-	-	-
USA	($)	1.6080	+0.0125	076 - 083	1.6100	1.5375	1.6076	0.3	1.6058	0.5	1.589	1.2	88.5
Pacific/Middle East/Africa													
Australia	(A$)	2.2083	+0.015	076 - 101	2.2117	2.2070	2.2111	-1.2	2.2146	-1.0	2.2236	+0.7	78.5
Hong Kong	(HK$)	12.4380	+0.0951	345 - 415	12.4583	12.3583	12.434	0.4	12.4246	0.4	12.3577	0.8	-
India	(Rs)	50.4818	+0.3893	626 - 008	50.5570	50.1290	-	-	-	-	-	-	-
Israel	(Shk)	4.7709	+0.0172	667 - 750	4.7773	4.7478	-	-	-	-	-	-	-
Japan	(Y)	135.928	+0.822	842 - 014	136.070	125.100	135.318	5.4	134.053	5.5	128.188	5.7	169.8
Malaysia	(M$)	3.9267	+0.0261	250 - 283	3.9323	3.9000	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.4005	+0.0168	990 - 018	2.4023	2.3987	2.4053	-2.4	2.4144	-2.3	2.431	-1.3	98.2
Philippines	(Peso)	41.2842	+0.3197	546 - 137	41.4350	41.1314	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.0307	+0.0468	290 - 323	6.0402	5.9917	-	-	-	-	-	-	-
Singapore	(S$)	2.2444	+0.0158	431 - 451	2.2476	2.2296	-	-	-	-	-	-	-
South Africa	(R)	5.8976	+0.0393	951 - 000	5.9053	5.8680	-	-	-	-	-	-	-
South Korea	(Won)	1223.73	+8.12	338 - 498	1225.07	1216.33	-	-	-	-	-	-	-
Taiwan	(T$)	41.4626	+0.3346	468 - 764	41.5281	41.1836	-	-	-	-	-	-	-
Thailand	(Bt)	39.6521	+0.301	273 - 768	39.7010	39.4160	-	-	-	-	-	-	-

† Rates for Jun 15. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 16		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J P Morgan index
Europe													
Austria	(Sch)	9.8494	-0.0096	462 - 525	9.9105	9.8420	9.8314	1.5	9.8174	1.3	9.7229	1.3	106.9
Belgium	(BFr)	28.7430	+0.233	340 - 520	28.9150	28.7300	28.708	1.5	28.653	1.3	28.533	0.7	109.4
Denmark	(DKr)	5.4698	-0.0315	678 - 713	5.4340	5.4663	5.4733	-0.8	5.4818	-0.9	5.5171	+0.9	109.7
Finland	(FM)	4.3020	-0.021	015 - 025	4.3282	4.2720	4.3002	0.5	4.297	0.5	4.2965	0.1	85.0
France	(FFr)	4.9183	-0.0302	178 - 188	4.9215	4.9115	4.9249	-1.6	4.9373	-1.5	4.9672	-1.0	108.1
Germany	(DM)	1.4007	-0.0099	003 - 010	1.4100	1.3995	1.3989	1.5	1.3952	1.6	1.3813	1.3	111.2
Greece	(Dr)	226.050	-1.8	800 - 300	229.000	225.790	228.06	-10.8	231.6	-10.2	247.55	-9.5	67.7
Ireland	(I£)	1.6358	+0.0112	345 - 370	1.6405	1.6315	1.6363	-0.4	1.6381	-0.6	1.643	-0.4	-
Italy	(L)	1648.25	-1.75	150 - 900	1652.75	1644.00	1654.75	-4.7	1667.5	-4.7	1727.75	-4.8	66.7
Luxembourg	(LFr)	28.7430	-0.233	340 - 520	28.9150	28.7300	28.708	1.5	28.653	1.3	28.533	0.7	109.4
Netherlands	(Fl)	1.5675	-0.012	672 - 677	1.5777	1.5665	1.5654	1.6	1.5614	1.5	1.5493	1.2	108.8
Norway	(NKr)	6.2390	-0.031	365 - 415	6.2658	6.1936	6.2402	-0.2	6.233	0.4	6.2255	0.2	97.9
Portugal	(Es)	147.430	-0.905	380 - 480	148.520	147.320	147.88	-3.7	148.82	-3.9	154.98	-4.9	95.8
Spain	(Pta)	121.650	-0.4	600 - 700	122.260	121.490	121.99	-3.4	122.79	-3.7	127.125	-4.5	83.6
Sweden	(SKr)	7.2531	-0.0238	485 - 577	7.2925	7.2461	7.2688	-2.6	7.3046	-2.8	7.4908	-3.3	77.4
Switzerland	(SFr)	1.1599	-0.0066	594 - 604	1.1679	1.1590	1.1571	2.8	1.152	2.7	1.1329	2.3	112.1
UK	(£)	1.6080	+0.0125	076 - 083	1.6105	1.5975	1.6076	0.3	1.6058	0.5	1.589	1.2	84.1
Ecu	-	1.3206	+0.0096	203 - 208	1.3213	1.3130	1.3204	0.1	1.3203	0.1	1.3163	0.3	-
SDR†	-	0.64007	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-0.0001	998 - 999	0.9999	0.9997	-	-	-	-	-	-	-
Brazil	(R$)	0.9085	+0.003	080 - 090	0.9090	0.9060	-	-	-	-	-	-	-
Canada	(C$)	1.3819	+0.0046	816 - 821	1.3825	1.3793	1.3834	-1.3	1.3865	-1.3	1.3984	-1.2	80.0
Mexico	(New Peso)	6.1550	-0.02	100 - 000	6.2000	6.1700	6.1872	-0.4	6.1904	-2.4	6.1953	-0.2	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	50.1
Pacific/Middle East/Africa													
Australia	(A$)	1.3736	-0.0013	732 - 742	1.3822	1.3732	1.3752	-1.4	1.3791	-1.6	1.4003	-1.9	80.0
Hong Kong	(HK$)	7.7353	-0.0000	348 - 358	7.7370	7.7345	7.7335	0.3	7.733	0.1	7.7488	-0.2	-
India	(Rs)	31.3950	-0.001	900 - 000	31.4170	31.3740	31.475	-2.1	31.72	-4.1	-	-	-
Israel	(Shk)	2.9671	-0.0123	651 - 690	2.9833	2.9651	-	-	-	-	-	-	-
Japan	(Y)	84.5350	-0.21	000 - 700	84.7700	84.3700	84.16	5.0	83.47	5.0	80.565	4.7	170.5
Malaysia	(M$)	2.4420	-0.0015	415 - 425	2.4445	2.4410	2.44	1.0	2.4376	0.7	2.432	0.4	-
New Zealand	(NZ$)	1.4928	-0.0011	923 - 934	1.5015	1.4909	1.4962	-2.7	1.503	-2.7	1.5222	-2.0	-
Philippines	(Peso)	25.6750	-	000 - 500	25.7500	25.6000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	503 - 507	3.7508	3.7502	3.7515	-0.3	3.7536	-0.3	3.7665	-0.4	-
Singapore	(S$)	1.3958	-0.001	953 - 963	1.3980	1.3950	1.3906	4.5	1.3825	3.9	1.3558	2.9	-
South Africa	(R)	3.6678	-0.004	670 - 685	3.6710	3.6610	3.6838	-5.3	3.7339	-7.9	3.9958	-8.9	-
South Korea	(Won)	761.050	-0.25	000 - 100	762.100	761.000	764.05	-4.7	767.55	-3.4	786.05	-3.3	-
Taiwan	(T$)	25.7800	+0.0085	830 - 030	25.6000	25.7200	25.906	-0.3	25.946	-0.3	-	-	-
Thailand	(Bt)	24.6600	-	500 - 700	24.6290	24.6540	24.681	-1.0	24.7075	-0.8	24.795	-0.5	-

† SDR rate per $ for Jun 15. Bid-offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 15. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

June 16	Over night	One month	Three mths	Six mths	One year	Lomb. inter.
US	6	6	6	[illegible]	[illegible]	-
week ago	6	6	6	[illegible]	[illegible]	-

■ $ LIBOR FT London

	Over night	One month	Three mths	Six mths	One year	Lomb. inter.
US Dollar CDs	-	5.74	5.74	5.72	5.72	-
week ago	-	5.74	5.85	5.78	5.80	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low
Jun	93.96	93.96	-0.03	93.99	93.94
Sep	94.32	94.32	-	94.32	94.24
Dec	94.33	94.35	-0.01	94.37	94.24

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low
Jun	94.50	94.51	-0.03	94.52	94.50
Sep	94.71	94.72	-0.01	94.72	94.64
Dec	94.75	94.82	-	94.82	94.70

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 16		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.03	17.11	4.872	2.127	5733	5.452	21.70	513.0	423.2	25.23	4.036	2.164	4.807	3.470	294.0	2.635
Denmark	(DKr)	52.55	10	8.991	2.501	1.118	3013	2.865	11.40	269.8	222.4	13.26	2.121	1.137	2.526	1.828	154.5	1.385
France	(FFr)	58.45	11.12	10	2.848	1.243	3351	3.187	12.68	299.8	247.3	14.74	2.358	1.265	2.810	2.033	171.9	1.540
Germany	(DM)	20.52	3.905	3.512	1	0.437	1177	1.119	4.454	105.3	86.80	5.178	0.828	0.444	0.987	0.714	60.35	0.541
Ireland	(I£)	47.02	8.947	8.045	2.291	1	2696	2.564	10.20	241.2	199.0	11.86	1.897	1.017	2.260	1.636	138.3	1.239
Italy	(L)	1.744	0.332	0.298	0.085	0.037	100.	0.095	0.378	8.947	7.381	0.440	0.070	0.038	0.084	0.061	5.128	0.046
Netherlands	(Fl)	18.34	3.490	3.138	0.894	0.390	1052	1	3.980	94.09	77.62	4.627	0.740	0.397	0.882	0.638	53.93	0.483
Norway	(NKr)	46.08	8.769	7.884	2.245	0.980	2642	2.512	10	236.4	195.0	11.63	1.859	0.997	2.215	1.603	135.5	1.214
Portugal	(Es)	19.48	3.709	3.335	0.950	0.415	1118	1.063	4.230	100.	82.50	4.918	0.787	0.422	0.937	0.678	57.32	0.514
Spain	(Pta)	23.63	4.496	4.043	1.151	0.503	1355	1.288	5.120	121.2	100.	5.961	0.953	0.511	1.136	0.822	69.48	0.623
Sweden	(SKr)	39.64	7.543	6.782	1.931	0.843	2273	2.161	8.602	203.3	167.8	10	1.599	0.858	1.906	1.379	116.6	1.045
Switzerland	(SFr)	24.78	4.718	4.240	1.208	0.527	1421	1.351	5.378	127.1	104.0	6.252	1	0.536	1.191	0.862	72.87	0.653
UK	(£)	46.22	8.795	7.908	2.252	0.983	2650	2.520	10.03	237.1	195.6	11.66	1.865	1	2.222	1.608	135.9	1.218
Canada	(C$)	20.80	3.958	3.559	1.014	0.442	1193	1.134	4.514	106.7	88.03	5.248	0.839	0.450	1	0.724	61.16	0.548
US	($)	28.74	5.470	4.918	1.400	0.611	1648	1.567	8.238	147.5	121.8	7.251	1.160	0.622	1.382	1	84.51	0.757
Japan	(Y)	34.01	6.472	5.816	1.657	0.723	1950	1.854	7.380	174.5	143.6	8.580	1.372	0.736	1.635	1.183	100	0.890
Ecu		37.95	7.221	6.493	1.849	0.807	2176	2.069	8.235	194.7	160.0	9.573	1.531	0.821	1.824	1.320	111.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	0.7104	0.7140	+0.0041	0.7156	0.7104	3,279	41,719
Sep	0.7137	0.7167	+0.0041	0.7184	0.7122	26,573	29,643
Dec	0.7162	0.7192	+0.0042	0.7192	0.7162	39	1,688

■ Pound in New York

Jun 16	--- Close ---	--- Prev. close ---
£ spot	1.6055	1.5995
1 mth	1.6049	1.5991
3 mth	1.6033	1.5974
1 yr	1.5963	1.5904

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on the Emerging Markets page in today's edition.

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

■ STERLING FUTURES (IMM) £62,500 per £

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

FT GOLD MINES INDEX

	Jun 16	% chg since 30/12/94	Jun 15	Mkt Cap $bn	% of Gold Mines	Gross div yield %	52 week High	52 week Low
Gold Mines Index (33)	2001.00	+1.3	1982.31	43.68	100.00	2.21	2337.90	1637.81

■ Regional Indices

LONDON RECENT ISSUES: EQUITIES

RIGHTS OFFERS

UK INTEREST RATES

LONDON MONEY RATES

UK clearing bank base lending rate 6¾ per cent from February 2, 1995

BANK OF ENGLAND TREASURY BILL TENDER

BASE LENDING RATES

BANK RETURN

UK GILTS PRICES

STOCK INDICES

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

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Credis Investment Funds - Contd.

Morgan Stanley Sicav

Allied Dunbar International Assce Ltd (z)

Royal Skandia Life Assurance Ltd - Contd.

The China Fund

The China Invest & Development Fd Ltd

Citibank Global Asset Mgmt (Asia) Ltd

Global Asset Management - Contd.

E D & F Man Investment Products - Contd.

Rosenwald, Roditi & Co Ltd

Sabre Futures Fund

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

Prices of certain older insurance linked plans subject to capital gains tax on sales.

(**) Funds not SIB recognised. The regulatory authorities for these funds are:

Guernsey - Financial Services Commission

Ireland - Central Bank of Ireland

Isle of Man - Financial Supervision Commission

Jersey - Financial Services Department

Luxembourg - Institut Monétaire Luxembourgeois.

Initial charge - Charge made on sale of units.

Selling price - Bid or redemption price.

Buying price - Offer or issue price.

Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:

(☀) - 0001 to 1100 hours

(◆) - 1101 to 1400 hours

(▲) - 1401 to 1700 hours

(✱) - 1701 to midnight

E - Exit charge on sale of units.

C - Manager's periodic charge deducted from capital.

H - Historic pricing F - Forward pricing

h - Distribution free of UK taxes.

g - Periodic premium insurance plans.

s - Single premium insurance.

u - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities)

z - Offered price includes all expenses except agent's commission.

y - Previous day's price.

§§ - Guernsey gross.

♦ - Yield before Jersey tax.

† - Ex-subdivision.

§ - Only available to charitable bodies

Φ - Yield column shows annualised rates of NAV increase.

xd - Ex-Dividend.

LONDON SHARE SERVICE

BANKS, MERCHANT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Barings 8pc Cm 2nd Prf		50¼	—	8%	–	Jun Dec	14.11	1757
9¼pc Non-Cum Prf		44¼	—	9¼%	–	Jan Jul	14.11	1421
Cater Allen	♣†	623	—	28.3	1.6	Jan Jul	12.12	2081
Close Bros	♣†	278	—	1.9	2.9	Apr Oct	13.3	2168
Gerrard & Nat	♣†	460	—	24.0	1.3	Jul Dec	7.11	2886
Hambros	♣†	198	4.6	1.5	1.3	Aug Dec	23.11	2812
7¼pc Cv Pf		97½	0.5	7¼%	–	Oct Apr	20.2	4388
Joseph (L)	♣†	363	—	17.65	1.9	Sep Dec	5.12	3080
King & Shaxson	♣	119	–8	9.0	1.1	Jan Jul	19.12	3088
Kleinwort Benson	♣	713	3.6	Q1.0	2.6	May Oct	[illegible]	3162
Rea Brothers	♣	51	—	1.0	2.7	May Oct	10.4	3785
Schroders	♣	1130	2.4	13.67	5.1	May Oct	27.3	3939
N/V		908	1.5	13.67	5.1	May Oct	27.3	3941
Singer & Fried	♣	82	–3.2	3.5	2.7	Nov Jun	16.4	4028
Union	♣	100	7.5	3.0	–	Apr Oct	13.3	4353
Warburg (SG)	♣	769xd	2.1	22.0	0.2	Sep Dec	22.5	4425
Wintrust	♣	250	2.0	11.35	♦	Mar Oct	20.2	4524

BANKS, RETAIL

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
ABN Amro Fl		£24½	–.5	Q64%	♦	Sep May	9.93	–
ANZ A$	†	218	–2.3	Q29c	2.4	Jan	12.93	–
Abbey National		478	0.4	11.75	2.8	May Oct	13.3	5411
Allied Irish I£	♣	304	1.3	Q55%	3.1	Oct Apr	20.2	1354
Anglo Irish I£		55xd	—	Q17.9%	1.8	Jan Jul	22.5	1356
Asahi Y		721	–3.4	Q14%	1.3	Jun Dec	12.92	3049
Banco Bil Viz Pta		£18¾	2.5	Q27.2%	2.7	JyOcJaAp	7.93	–
Banco Sant Pta		£22⅝	—	Q54.7%	1.1	JyOcJaAp	2.5	–
Bk Ireland I£		355xd	0.6	Q15.6%	♦	Jan Jul	22.5	1360
Bank Scotland	♣	219xd	–1.4	5.82	3.9	Jul Dec	9.5	1742
9¼pc Pf		111¾	–.9	9¼%	–	May Nov	24.4	1462
9¾pc Pf		118¾	–.6	9¾%	–	May Nov	24.4	1685

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

BUILDING MATS. & MERCHANTS - Cont.

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

INVESTMENT COMPANIES - Cont.

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL EXPLORATION & PRODUCTION - Cont.

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	Wk% change	Div net	Cov cov	Dividends paid	Last xd	City line
Anglo Am Ind		£22½	—	0450c	2.4	Oct Apr	3.93	-
Barlow	♣	£6½	-4.6	050c	2.8	Jan Jul	12.12	-
Gold Flds Prop		148	1.4	060c	2.1	Feb Sep	1.94	-
Ist. Props		98	...	067.1c	-	Feb Sep	10.90	-
SASOL	♥	578	-4.6	078c	-	Oct	9.93	-
SA Brews		$17¾xd	-1.4	0200c	6	Jan Dec	20.6	-
Tiger Oats		950	8.6	085c	2.8	Jan Aug	12.12	-
Tongaat-Hulett	♣	805	-5.5	080c	2.4	Jan Jun	15.5	-

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name

Dividend covers are based on "maximum" distribution, unless "n" is shown in the Notes field, indicating that the cover is calculated on a "nil" basis. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- ☐ Indicates the most actively traded stocks. This includes UK stocks where trades and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♠ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available, see details below
- ♣ USM, not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies
- ¤ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend, cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. e [illegible] dividend. h [illegible] [illegible] [illegible] [illegible] c Rights issue pending q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast or estimated annualised dividend rate, cover based on previous year's earnings. v P/E ratio & net cover calculated under new ACT guidelines. z Dividend includes a special payment. Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1275 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: **Deletions: Europe Energy (Oil Expln).**

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Call 0171 873 4378 for more information on FT Cityline.
For readers phoning from outside UK, please dial +44 in place of the first 0.

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close June 16

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
15¾	12½	AAR	0.48	3.1	26	59	15⅝	15½	15½	
24	17	ALPharmaA	0.18	1.0	137	656	17⅞	17¾	17⅞	
45¼	25	AMP	0.92	2.1	23	7563	44⅝	43⅞	44¼	
75¼	53⅝	AMR			24	5501	74¼	73⅞	74	-⅜
47⅞	41⅞	ASA	1.71	3.8	29	1422	45⅛	44⅝	44¾	
40⅞	30¾	AbbtL	0.84	2.1	20	19025	40⅝	40½	40⅝	+⅛
17¼	12	Abitibi Pr	0.40	2.5	123	815	16	15⅞	16	+⅛
24½	21	ABM Ind	0.60	2.7	12	48	22½	22¼	22½	
16⅝	13½	Acptncein			8	35	14½	14¼	14¼	-⅛
29½	21⅞	ACE Ltd	0.56	2.0	12	982	28	27⅞	28	-⅛
9⅞	6⅛	ACM Gvt In	0.90	9.7	9	161	9⅛	9¼	9¼	-⅛
7½	6½	ACM GvOpp	0.66	9.1		114	7⅜	7¼	7¼	
7½	5¾	ACM Gvt Sp	0.75	10.9		116	7	6⅞	6⅞	
6⅝	7⅛	ACM Gvt Se	0.90	10.9		190	8⅜	8¼	8¼	-⅛
9½	7⅝	ACM Man	1.08	11.7		102	9⅜	9¼	9¼	
28⅛	10¼	AcmeCly	0.48	1.9	12	446	25	24⅞	25	+⅛
33½	12⅞	Acme Elect			82	1362	u34	31¾	33	+1⅞
34½	30	Acordia	0.72	2.3	15	20	31¼	31⅛	31½	+⅛
12⅜	8⅝	Actava	0.36	2.9	10	2878	u12¾	12⅛	12⅝	+½
16¾	10½	Acuson			23	873	11⅜	11¼	11⅜	+¼
17⅝	15⅝	Adams Expr	0.43	2.8	0	137	17⅜	17¼	17¼	-⅛
71½	25	AdvMic			9	13650	35⅛	34⅝	34⅝	-¾
7¾	5	Advest Grp	0.16	2.1	40	271	7⅝	7¼	7⅝	+⅛
21⅞	16½	Advo Inc	0.10	0.5	17	47	u21⅞	21½	21¾	+⅛
34⅜	24.30	Aegon	1.03	3.0	16	41	33¾	33½	33¾	+¼
5	3⅞	Aerflx			7	649	4⅜	4½	4⅝	
62⅝	46¾	AetnaL	2.76	4.5	11	3813	62⅛	61¾	61⅞	-⅛

Continued on next page

NYSE COMPOSITE PRICES

4 pm close June 16

Continued from previous page

- X - Y - Z -

1995 High	Low	Stock	Div.	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev.
125¾	96½	Xerox	2.00	2.8	16	3845	116⅛	115⅛	115¼	-1⅛
52½	44⅞	Xtra Corp	0.64	1.4	12	346	45⅞	44⅝	45⅛	-½
22⅞	19½	Yankee Egy	1.28	5.9	14	53	21⅞	21⅝	21⅝	+⅛
45⅛	34⅛	York Int	0.24	0.5	17	1022	44½	43¾	44½	+½
4⅞	3¼	Zapata	0.14	4.1	8	404	3½	3⅜	3⅜	-⅛
12⅛	6⅞	ZenithEl			13	1334	8	7⅞	7⅞	
22¾	19⅞	Zenith Nat	1.00	4.6	11	88	22	21⅞	21⅞	
6⅞	6⅛	Zenix Inc	0.72	10.7		147	6¾	6⅝	6¾	
15¼	12⅝	Zero	0.44	3.0	15	264	14¾	14½	14⅝	-¼
20⅞	16⅞	Zurn Ind	0.40	2.0	28	417	20¼	20	20¼	
11¾	10¾	Zweig Fund	1.04	8.6		357	11⅛	10¾	10⅞	
8⅞	7⅞	Zweig Totl x	0.64	8.7		258	8¼	8⅛	8⅛	-⅛

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1995

Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. pf-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

4 Dealings suspended.

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NASDAQ NATIONAL MARKET

4 pm close June 16

AMEX COMPOSITE PRICES

4 pm close June 16

FT GUIDE TO THE WEEK

MONDAY 19

EU-Japan summit in Paris

Trade is expected to dominate the agenda at the European Union-Japanese summit. France's President Jacques Chirac will play host as current president of the EU, accompanied by Jacques Santer and Sir Leon Brittan of the European Commission. Prime minister Tomiichi Murayama will lead the Japanese delegation

Mr Chirac will also hold a purely bilateral session with Japanese ministers who are expected to criticise his decision to resume nuclear testing.

Mercosur in focus

The World Economic Forum meets for two days in São Paulo to discuss Mercosur, the customs union which groups Brazil, Argentina, Paraguay and Uruguay. As well as the members' four presidents and various business leaders from the region, President Eduardo Frei of Chile will attend, since his country is negotiating to enter Mercosur as a free-trade partner.

Finance ministers meet

European Union finance ministers meet in Luxembourg to prepare the ground for next week's European summit in Cannes. They will consider the Commission's green paper on technical preparation for the single currency and measures to boost employment and growth. Ministers will also decide that all the member states except Germany, Ireland and Luxembourg are running excessive deficits.

EU agriculture council

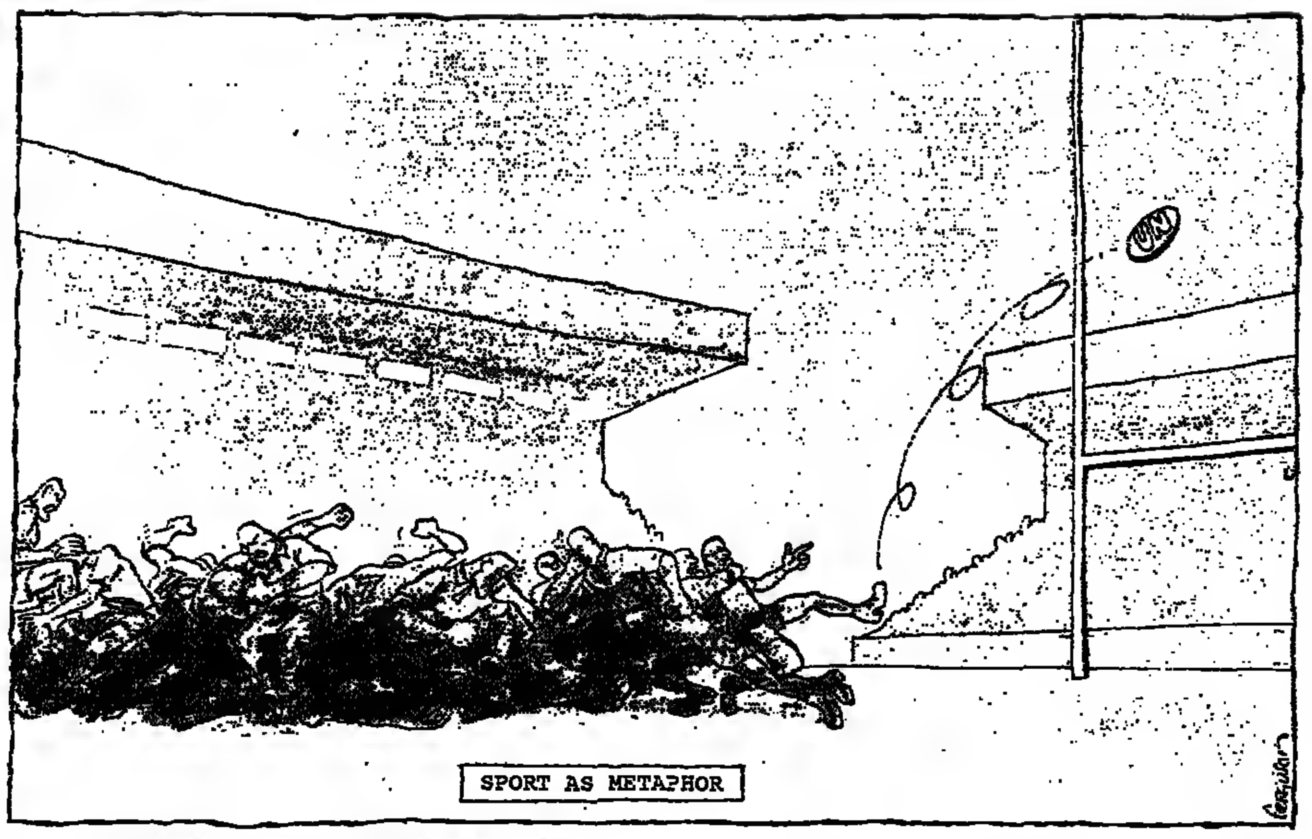
Two controversial issues will dominate the meeting of agriculture ministers in Brussels: agrimonetary policy and animal transport. The Commission is set on reform of the agrimonetary regime to prevent costs running out of control. Germany has fiercely resisted because its farmers would get less. Ministers will also try to break a two-year deadlock on the question of time-limits when transporting live animals.

Kinnock bids for open skies

At the two-day EU transport ministers' meeting in Luxembourg, Neil Kinnock, transport commissioner, will request a mandate to negotiate a comprehensive aviation deal with the US. Mr Kinnock says member states should cede negotiating powers to Brussels because greater benefits would accrue from an EU-wide deal. Six members have recently signed wide-ranging aviation deals with the US.

Opec likely to retain levels

Oil ministers from the Organisation of Petroleum Exporting Countries are unlikely to change the current Opec production ceiling of 25.52m barrels a day at their meeting in Vienna. But there may be debate on the use of currencies other than the US dollar to price oil. Ministers are also concerned that non-Opec oil producing states are capturing most of the growth in world demand for oil.



The United Nations is left with little active role in the Bosnia morass

President for Hungary

The Hungarian parliament chooses a president, the head of state. The incumbent Arpád Göncz, a writer and former dissident, is expected to be re-elected to a second five-year term. Mr Goncz, whose candidacy is supported by the ruling Socialist-Liberal coalition, needs two-thirds of the the vote to defeat Ferenc Madl, a former culture minister, who is backed by centre-right opposition parties.

Wine trade fair opens

The eighth Vinexpo, the world's largest wine and spirits trade fair which is held every two years, opens in Bordeaux (to June 23). Among the more than 2,000 exhibitors expected from 41 countries, western and eastern Europe will be heavily represented as well as new-world growers.

Hungaro-Romanian treaty

Hungarian and Romanian foreign ministry officials resume talks in Bucharest aimed at agreeing a much-delayed basic treaty between the two neighbouring states. Signing the treaty is a precondition for both countries' admission to the European Union or Nato.

Leakey's party to register

Richard Leakey, the Kenyan palaeontologist and conservationist, is expected to register his opposition grouping, *Safina* (Noah's Ark in Swahili), as a political party, having failed to do so on June 14 because the paperwork was not ready. The movement has agitated President Daniel arap Moi's government, which has a month in which to decide whether to approve the new party.

UK junior market opens

The Alternative Investment Market for smaller UK companies starts trading in London. It will replace both existing secondary markets, which will cease to trade in the next 12 months.

FT Survey

The Indian state of Maharashtra.

Holidays

Algeria, Argentina, Colombia, Hong Kong, Macau, Uruguay, Venezuela,

TUESDAY 20

OECD economic outlook

The Paris-based Organisation for Economic Co-operation and Development publishes its latest Economic Outlook. With US growth apparently slowing, the Japanese economy still weak, and doubts emerging about the strength of Europe's recovery, the OECD's forecasts for world growth, and its recommendations for interest rate policy, are likely to be closely studied.

Oxfam poverty campaign

Oxfam launches a global campaign with its poverty report and a new charter for basic rights. It is timed to precede the 50th anniversary of the signing of the United Nations Charter and Universal Declaration of Human Rights on June 26.

EU justice ministers meet

The two-day session in Luxembourg will attempt to reach agreement on the Europol convention covering the pan-European police agency. Chief obstacles to a deal are French worries about the handling of sensitive information, and British objections to yielding jurisdiction to the European Court of Justice. Another task is to agree on a list of third countries whose nationals will require a visa for the EU.

Spanish-German talks

Javier Solana, Spain's foreign minister, holds talks with Klaus Kinkel, his German counterpart, in Berlin. Spain takes over the revolving presidency of the European Union in July.

CBI's view of UK in Europe

The Confederation of British Industry, the biggest UK employers' lobby, publishes its policy document "Shaping the Future – a Europe that Works". The CBI will endorse Britain's position "at the heart of Europe", call for more rigorous competition rules and back a single currency.

Chess

Gary Kasparov, Judit Polgar, the world's top-rated woman, and other grandmasters contest the $160,000 New York Grand Prix (to June 23). Giant TV screens, fast time limits and earphone commentaries make for a lively spectator event.

Horse racing

Royal Ascot starts, Britain's annual gathering of top toffs, top hats and top racehorses (to June 23).

FT Survey

Leeds and the North.

WEDNESDAY 21

Li Peng visits CIS states

China's premier Li Peng leaves on a week-long visit to Belarus, Ukraine and Russia. In Moscow he is expected to meet President Boris Yeltsin and prime minister Viktor Chernomyrdin. Mr Li's visit to Moscow continues a regular round of high-level Sino-Russian contacts.

German decision on Bosnia

Germany's cabinet is to discuss whether German medical workers and support troops may be sent to Bosnia.

UK economic policy

Release of the minutes of the May 5 monetary meeting between Eddie George, governor of the Bank of England, and Kenneth Clarke, chancellor of the exchequer, should show whether Mr Clarke refused Mr George's request for a rate rise, as is widely believed.

Mr Clarke insists that he remains committed to a low inflation target, but any signs of strong disagreement is likely to fuel City concern.

FT Surveys

Environmental Management and Technology and Private Banking.

THURSDAY 22

US-Japan trade talks

Senior US and Japanese officials meet in Geneva (to June 23) in a renewed bid to settle their acrimonious car dispute and avert a trade war. In a bid to prise open Japan's domestic market for foreign cars and car parts, the US has threatened to impose sanctions on $5.9bn-worth of Japanese luxury car imports from June 28. Tokyo is challenging the move in the World Trade Organisation.

French jobless measures

Alain Juppé, France's prime minister, is to announce his government's plans to combat unemployment. They are expected to consist largely of subsidies and welfare tax exemptions to employers who take on the long-term jobless.

R&D Scoreboard

The UK Department of Trade and Industry publishes its 1995 R&D Scoreboard, a ranking of 358 quoted UK companies and 200 international companies in order of research and development spending. An FT Survey analyses the results.

Saleroom

Dame Barbara Cartland is selling her jewels. The queen of romantic fiction should be at least £80,000 ($125,600) richer after her collection of period and costume jewellery comes under the hammer at Sotheby's.

Pink may be her favourite colour, but aquamarine is her favourite stone and an aquamarine suite of her own design is expected to make the top price of up to £30,000.

Cricket

The second Test between England and the West Indies begins at Lord's (to June 26).

Golf

The French Open starts in Paris.

FT Surveys

Guide to Research and Development and FT Guide to Cricket (UK only).

Holidays

Croatia.

FRIDAY 23

Okinawa war dead ceremony

Japan's prime minister Tomiichi Murayama attends a memorial service on Okinawa for the more than 200,000 people who died in the battle for the island 50 years ago.

Holidays

Finland, Latvia, Luxembourg, Sweden.

SATURDAY 24

Run-up to Cannes summit

The European-wide parties represented in the EU's Strasbourg parliament congregate on the Côte d'Azur ahead of next week's *summit*. The socialists, the Christian Democrats and, on Sunday, the European People's Party all discuss strategy.

Worm charming contest

The annual world champion competition in which contestants have to charm as many worms as they can from the ground in 30 minutes takes place at Nantwich, Cheshire, north-west England.

Rugby

In the World Cup final, the home team, South Africa, face an unstoppable-looking New Zealand in Johannesburg.

SUNDAY 25

Election in Haiti

Haitians vote in legislative elections, the first test of national political opinion since President Jean-Bertrand Aristide was reinstated nine months ago. The populist coalition which supports the president is expected to gain most of the seats being contested for the senate and the lower house, and control of town councils.

Compiled by Patrick Stiles.
Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: In the aftermath of the G7 summit of world leaders in Halifax, and with lingering speculation about the possibility of co-ordinated central bank action to support the dollar, the markets will be watching carefully for any economic indicators that might affect currency movements this week.

In Germany, a crop of data is likely to cast fresh doubts about the strength of the economic upturn, with producer price figures expected to show a small decline. In Japan, data on June's wholesale price index may point to further disinflation.

Tuesday: US May housing starts figures are expected to show further declines.

Wednesday: The US trade figures will be watched carefully for hints that the deficit has deteriorated further. Meanwhile the first-quarter current account data are also expected to show a widening deficit.

Thursday: Consumer expenditure in Japan is expected to have continued falling in April, although at a slightly slower rate than in March. Meanwhile, the IFO business survey in Germany is expected to show a continued weakening of business optimism.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	May money supply (M2+CD)**	3.3%	3.1%
June 19	Japan	May broad liquidity**	-	4.1%
	Japan	June w'sale price indx, 1st 10 days	-	-0.1%
	Italy	Apr industrial production**	5.7%	8.7%
	Poland	May industrial output**	-	8.1%
Tues	US	May housing starts	1.25m	1.24m
June 20	US	May building permits	-	1.24m
	Japan	Apr coincident indx	80%	70%
	Japan	Apr leading diffusion indx	70%	45.5%
	UK	May M4*	0.3%	0.3%
	UK	May M4**	5.5%	5.4%
	UK	May M4 lending	£3.9bn	£4.7bn
	UK	May bdg scty net new commitments	£2.8bn	£2.9bn
	Denmark	May consumer price indx*	0.5%	0.3%
	Poland	Apr trade balance	-	-$204.9m
	Canada	Apr retail sales**†	-0.5%	-0.7%
	Aus'lia	May merchandise imports†	-0.8%	-1.9%
Wed	US	Apr trade, goods & services	-$9bn	$9.1bn
June 21	US	Apr bal payments, goods etc export	$65.1bn	$65.3bn
	US	Apr bal payments, goods etc import	$74.1bn	$74.5bn
	US	1st qtr current a/c	-	-$44.8bn
	US	May treasury budget	$38bn	$49.7bn
	UK	May trade ex-EC	-£360m	-£474m
	Italy	June cities consumer price indx*	0.5%	0.6%
	Italy	June cities consumer price indx**	5.8%	5.5%
	N'lands	Apr industrial production**	-	3.9%
	Canada	Apr merchandise exports*†	0.0%	-4.6%
	Canada	Apr merchandise imports*†	-0.9%	-2.9%
	Canada	Apr merchandise trade surplus	C$2bn	C$2bn
	Canada	Apr wholesale trade*†	0.0%	-0.1%
Thur	US	Initial claims w/e June 17	370,000	-
June 22	Japan	Apr overall pers consumer expend**	-0.5%	-0.6%
	Japan	Apr pers c'sumer expend, workers**	-	1.1%
	Japan	Apr income, workers**	-	1.6%
	Spain	1st quarter wage rises**	4.5%	4.5%
Fri	US	May durable orders	0.4%	-4%
June 23	US	May durable shipments	-	-2%
	France	Apr trade balance†	FFr9bn	FFr11.8bn
	Italy	Apr producer price indx**	8%	7.5%
	Italy	Apr wholesale price indx**	10.3%	9.3%
During the week...				
	Japan	June trade balance, 1st 10 days	-	$2.8bn
	Germany	May M3 from 4th qtr 94 base	-0.7%	-1.5%
	Germany	May M3 from 4th qtr 93 base	3.6%	3.5%
	Germany	May producer price indx*	0.1%	0.3%
	Germany	May producer price indx**	2%	2.1%
	Germany	May Ifo business climate	-	99.1
	Italy	Apr trade balance, payments	-	L2.75Tr

*month on month, **year on year, †seasonally adjusted *Statistics, courtesy MMS International.*

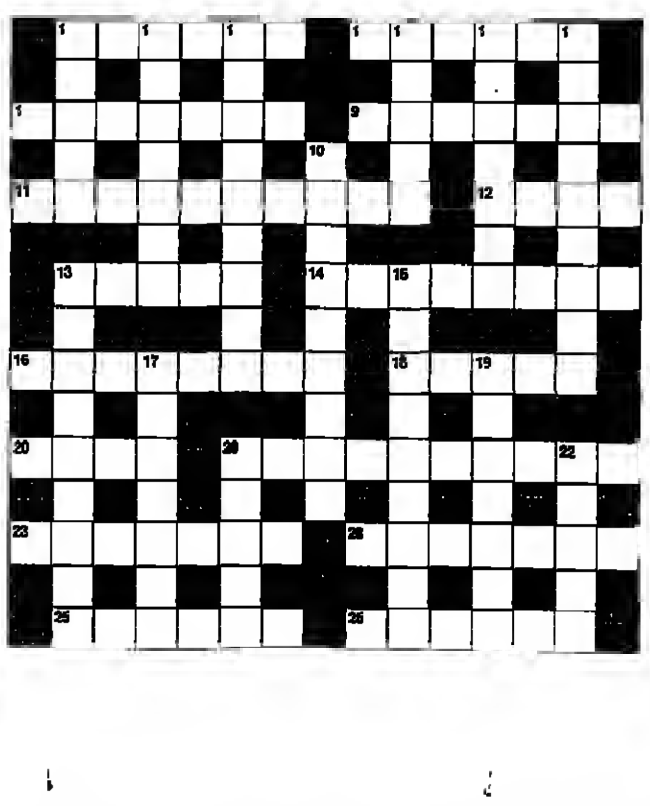
MONDAY PRIZE CROSSWORD

No.8,791 Set by VIXEN

A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday June 29, marked Monday Crossword 8,791 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday July 3. Please allow 28 days for delivery of prizes.

Name

Address



ACROSS

1 Skinhead ready for a drink (6)
4 Came to terms with embellishment (6)
8 A mite's possibly after quiet entertainment (7)
9 The less expert may be more colourful (7)
11 A tale told about exemplary put-down (10)
12 A certain police division could get really acrimonious (4)
13 Well-qualified persons – tip-top people (5)
14 Offhand royalist (8)
16 Swells can be game? Nuts! (8)
18 An Egyptian having nothing to turn over (5)
20 Some like to present an old-fashioned image (4)
21 Wrong bit cleared – must be made good (10)
23 Told of Parisian appearing in gold and scarlet (7)
24 Obvious way to get round the foreigner (7)
25 Advert about English jacket (6)
26 The poor guy will have to stop carrying food (6)

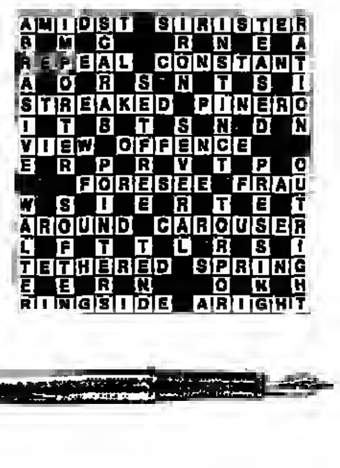
DOWN

1 Keep including the trainee as a labourer (5)
2 The man's arranging some music (7)
3 Curse and stop the race (9)
5 A bishop with an island off the Scottish coast (5)
6 Spectator taking look round (7)
7 The manager pretends to be prepared to receive one (9)
10 The underworld fulminated when talked about (9)
13 Given less than a quarter in spoil, he'd complain (9)
15 Few show support (9)
17 Dramatist and Lord Chancellor admitting misrepresentation (7)
19 Properly aligned at the front (7)
21 There's a place here for rowing men, note (5)
22 Inside an ocean-going vessel (5)

Winners 8,779

C.R. Martin, Royston, S. Yorkshire
A.L. Curry, Barham, Kent
Mrs S. Farquhar, Woodley, Berkshire
A.J. Ford, Potters Bar, Herts
T.A. Veitch, Cranbrook, Kent
M. Wells, Greenwich, Connecticut, USA

Solution 8,779



GUJARAT
The FT plans to publish this survey in August

FINANCIAL TIMES SURVEY

MAHARASHTRA

Monday June 19 1995

TAMIL NADU
The FT plans to publish this survey in September

India's leading industrial state is coming to terms with a change of government. **Mark Nicholson** looks at how foreign investors are likely to be affected

Investors are given mixed messages

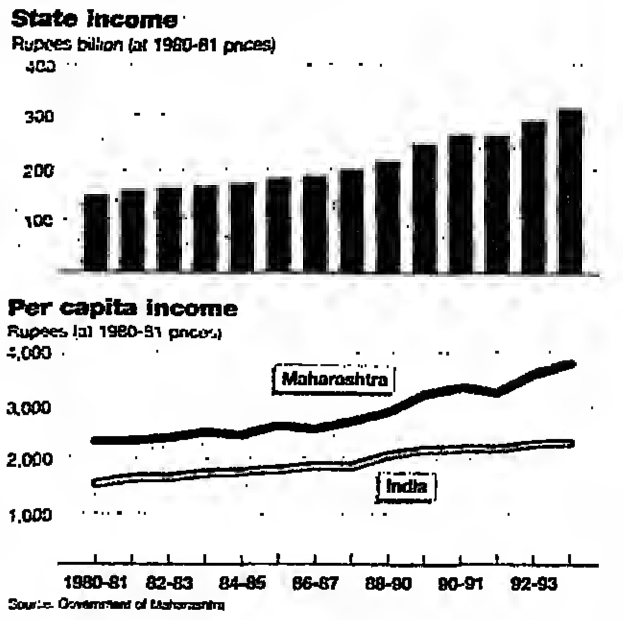
There is an almost jaunty self-confidence to the seolor officials in the bustling buildings of the Mantralaya, the office blocks in central Bombay from which Maharashtra, India's third biggest state and its financial and industrial heavyweight, is administered.

From behind their bureaucratic heaps of worn and bulging string-tied bioders, the Indian Administrative Service officers who run the state recite with relish the record of achievement since Maharashtra was formed from the division of Bombay state in 1960: stronger industrial performance, higher levels of investment, more disciplined financial management and higher levels of per capita income and growth than almost any other state in the union.

Moreover, the state's political transition since March, when unbroken decades of Congress party rule ended with the election victory of the Hindu nationalist alliance of the Bharatiya Janata Party and Shiv Sena, has proceeded "without the merest ripple", in one top official's words.

Inside the Mantralaya, perhaps. But from outside, specifically from the vantage point of overseas investors, the political transition has raised some discomfiting questioos about India's industrial giant. In its successful anti-Congress crusade, the BJP-Shiv Sena alliance sent some mixed signals to prospective foreign investors in Maharashtra. It attacked liberalising Congress party-led ecooomic reforms as being "anti-poor", and promised a slew of populist measures in redress. Under the banner of Hindu oationalism, it campaigned against the unrestricted approval of foreign investmeot, particularly into consumer goods industries. Indiao industrialists would be "put first".

Most disconcerting for prospective foreign investors, the alliance put opposition to the Dabhol power project at the centre of its election platform, promising a review – the result of which is pending – of what is at oooe the biggest prospective US investment into India and the first big power project both to achieve completion of financial arrangments and to start construction since India's central government determined that foreign capital must be allowed into the sector to help close the country's widening power gap.



Source: Government of Maharashtra

It remains to be seen if the review will conclude, as the alliance alleged, that there were improprieties in the negotiations leading to the Dabhol deal or that its power will come at unjustifiable expense; and whether if faults are found the deal will be cancelled or some compromise wrought.

But it is already becoming clear that Maharashtra's new governmeot had not anticipated the international row that its opposition to Dabhol would provoke: including warnings from the US and UK that concellation might threaten further big investment or at least add a higher political risk premium to future inflows.

There are recent signs that the new government is, notwithstanding the eventual outcome of the Dabhol review, seeking to amend and clarify its message to foreign investors. Mr Maoohar Joshi, the new chief minister, left this month, for instance, on an investment-courting tour of the UK and America, a host of promineot Maharashtra business notables in tow.

There is much at stake for the new chief minister, not least Maharashtra's record as India's pre-eminent choice for foreign investors. In the last calendar year the state saw \$1.19bn of foreign direct investment approved, more than a quarter of the total for India overall and much the highest level of any state. The industry ministry says a total of \$30bn of investment has been approved in the state since India's reforms began in 1991, \$7bn with some foreign component or participation – figures rivalled only by neighbouring Gujarat, where \$23bn of investment has so far been approved.

Success, in Maharashtra, has bred success. Built on the historical industriousness and eotrepreoeurialism of the Maharashtrian – and tens of thousands of Gujarati – businessmen in Bombay and Pune, the state has by almost any measure become India's business and financial centre. The state produces more than a quarter of Indian output in industries such as chemicals, rubber, metal products, machinery, transport equipment and repair of capital goods. It contributes half of all India's corporate tax receipts, 44 per cent of its customs duty and 30 per cent of all income tax reveoues.

Bombay's stock market is considerably the biggest in India; it is the country's undisputed banking ceotre and home to virtually all the 295 foreign institutional iovestors which have flocked to India since its economic opening.

Moreover, the state's officials point proudly to an enviable record of stable finances. Mr Venkat Chary, principal finance secretary, says the state's fiscal deficit this year was no more than 3 per cent of state income: well under half the proportion achieved by central governmeot.

Though Mr Chary says he would like Maharashtra to receive a share of India's pool of corporate and income tax – which is collected and distributed by the centre – more proportionate to its contributions, nevertheless he says the state is well within its means. Buoyant revenues from sales tax, stamp duties, vehicle, excise and other charges see to that.

Maharashtra also boasts India's least-lossmaking state electricity board; this year will be the first in several that it will make any claim at all on state government funds. "Unless anything quite extraordinary happens in the next 10 years," Mr Chary says, "we won't have to go anywhere near central governmeot contingency funds for anything." It is not a boast many other state finaocial secretaries could echo.

The state's infrastructure is also among India's best, both institutional and physical. Its investment agencies, such as the Maharashtra Industrial Development Corporatioo, which oversees laod, power water and other approvals, and the State Industrial and Investment Corporation of Maharashtra, the central investmeot co-ordinating body, are among India's oldest and more efficieot. Though local investors complain that Sicom does not yet offer quite the "single window" for investment approvals it boasts, few would swap Maharashtra's institutions for those in other states.

But Maharashtra cannot take its industrial and financial supremacy for granted.

Continued on Page 10


The two wings of the Taj Hotel - old and new - in Bombay
Tony Andrews


Police on the street in Bombay
Tony Andrews

IN THIS SURVEY

Editorial production
Gabriel Bowman

Richard Donkin looks at changes in the labour market

Union power is eroded

There is a story that the Maharashtra labour movement owes its origins to the 19th century cotton merchants of Manchester. Fearful that their products would be undercut by Bombay textile mills using low-paid workers, the Lancashire merchants are said to have helped organise Indian trade unions to push up the wage bills of their competitors.

"It is not true but it's a nice story," says Mr Vasant Gupte, director of the Maniben Kara Institute, a workers' educational group in Bombay. In fact there is a kernel of truth in the story, according to Mr Gupte's study of the early trade unions in Bombay. While he concedes that philanthropy lay at the heart of Lord Shaftesbury's proposals for Indian factory legislation, Mr Gupte maintains that the earl was not unaware of pressures to curtail the competitive advantages of Indian manufacturers.

Cheap labour is still a competitive advantage for many Indian industries but there are signs in Bombay that the labour market is being transformed as white collar jobs begin to ease out those of factory workers. While the trade union movement remains organised in Maharashtra, its strength has been eroded by industrial developments and liberalisation of the economy.

Factories in Bombay are closing to make way for developers and many of the new businesses in the rural areas are usually small enough to resist unionised labour, preferring to employ temporary and contract workers instead.

Union militancy was broken in a crippling textile strike during the early 1980s. Instead of giving in to employee demands, the employers resisted the strike, forcing thousands of penniless millhands to abandon the movement and their jobs. Before the strike Bombay had 250,000 textile workers. A year later, the figure had dwindled to 155,000.

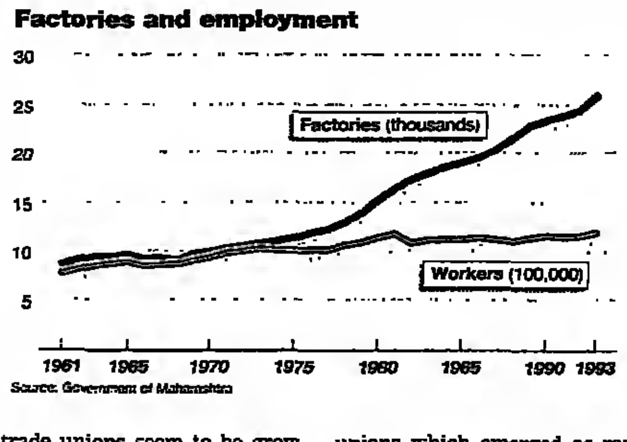
The strike was led by Mr Datta Salmant, a veteran union leader who today finds himself fighting a rearguard campaign to preserve textile jobs in the face of increasing mill closures. While some regard him as a troublemaker, to many of the working class trade unionists he remains a father figure.

Delegations queue at his office door to discuss their employment problems. Above his desk is a portrait of Ganesh, the elephant-headed god that removes all obstacles. For a group of quarry workers ushered into his office, Mr Salmant seems able to do the same. They drape a flower garland around his neck and show him their wage slips. "We have just won a 70 per cent pay rise and this is their way of saying thanks," says Mr Salmant.

"I cannot understand why there is not more militancy today. It can still prevent exploitation," he avers.

Memories of the 1982 strike remain strong, however, and

Factories and employment



Source: Government of Maharashtra

trade unions seem to be growing unfashionable. The reality facing Mr Salmant is that no more than 10 per cent of the Maharashtra labour force is now organised within unions.

Industrial employment has begun to retreat from Bombay. About 10 textile mills and some 140 factories and smaller industrial units have either closed or moved out in the past six or seven years. Scarcity of building land coupled with heavy demand for office space have pushed up the price of land committed to urban renewal. A factory is often worth more closed than open.

Partly out of respect for the trade unions, the Maharashtra state government has laws which make it difficult to evict workers and develop the derelict mills. All they seem to do, however, is delay the day that industrial employees make way for the office revolution.

In spite of their decline in popularity, the unions remain a force in the state because of a law peculiar to Maharashtra and Gujarat. The Bombay Industrial Relations Act of 1946, enacted when both states were under a single administration, recognises unions on an industry basis over a series of important sectors, including textiles, sugar, transport and co-operative banking. This means that a single union is recognised as the sole bargaining agent for a whole sector, providing advantages for both employers and trade unions.

Employers have found that negotiations for single union agreements tend to be more straightforward. For those unions which emerged as representing whole industries, it assured stability and prevented any divide-and-rule measures against fragmented unions.

Even though labour legislation still offers considerable employee protection – it is theoretically difficult to dismiss employees – in practice some employers have popularised voluntary retirement schemes, a form of golden handshake introduced by legislation in 1991, whereby often considerable sums of money are paid to employees to buy off their jobs.

On the other hand, companies sometimes simply close, defaulting on their legal obligations, leading to years of often fruitless court actions. While the Indian labour market has been notoriously inflexible with set employee establishments, even these are beginning to see some relaxation, particularly within the financial sector.

The rise of the financial sector in Bombay is gradually challenging union effectiveness, while the rise in salaries available for India's own financial and information technology specialists, whose high skill levels continue to impress western employers, has taken many higher paid employees beyond the influence of trade unions. The five industrial relations laws (three central and two state government) remain, however, a serious obstacle to labour flexibility.

Headhunting is becoming more common, particularly among Indian employees whose expertise has become sought after. The reason is partly the ever-escalating cost of expatriate assignments, mainly due to the rise in the cost of housing in Bombay.

Wages in Bombay must be viewed in relation to housing costs. Some 40 per cent of salaries are absorbed by the cost of accommodation. Commuting is also growing increasingly difficult. There are some 2,400 train services a day in the Bombay area, transporting some 6m people from the outlying suburbs. Some workers spend as much as three and a half hours each day on a train.

The pressures caused by the increases in population are becoming an issue for employers. Expatriates with children are now being warned away by diplomats because schools are full. Even those who love the city – and despite its problems, many do – grow bored with the lack of opportunity for weekend travel. A British expatriate said: "There is nowhere to go. You try to go up into the hills, but once stuck behind a slow-moving lorry, the whole expedition turns into a bad dream."

The labour market is changing but, until law reform occurs at central and state government level, it will struggle to take advantage of the economic liberalisation movement. There are businessmen who believe that Bombay can be another Hong Kong or Singapore. But the pace of financial expansion has so outstripped the city's basic infrastructure that, without reforms, their belief may remain illusory.

Bearing their tiffin boxes, the dabbawallahs are on their way - Richard Donkin

Mark Nicholson investigates Bombay's transport problems

Lunch survives a hard journey

Each and every weekday morning, tens of thousands of suburban Bombay wives and mothers cook and neatly pack spicy meats, vegetables, rice and chapatis into tin lunchboxes, 100,000 of them. These, in turn, are picked up by legions of Bombay "dabbawallahs". A dabbah is a lunchbox.

Hundreds of dabbawallahs then cycle with the boxes to dozens of suburban stations, where a second wave of dabbawallahs stack their "tiffin boxes" and squeeze onto the bursting trains bound for south Bombay, where half the city's population gathers daily to work.

By noon, hundreds more dabbawallahs take and sort the tiffin boxes, each marked with a personal code of symbols, on the platforms of Bombay's central stations. Then it's off to deliver each meal to the office of each of the 100,000 lovingly cooked-for sons and husbands.

The fresh, warm food gratefully devoured, the dabbawallahs collect the empty boxes and return them that afternoon, back up the same chain to each and every cook, for washing up.

There are 2,300 members of Bombay's Union of Tiffin Box Suppliers, and it is almost never that they deliver the wrong chapatis or return the wrong box. This unique service, a bizarre legacy of the British raj, also provides 100,000 workers with a meal which costs, including the dabbawallah's service, around Rs10 (about 20p); far cheaper and tastier than the pricey fare on sale in south Bombay's teeming streets.

But remarkable as Bombay's food delivery service is in itself, it is perhaps just as noteworthy for the proof it delivers that, for all its apparent failings, Bombay's horribly stretched urban transport system still functions with unexpected efficiency.

"So far," comments one Bombay official, "with all the constraints of land, the crowding, everything, we somehow manage to keep the traffic moving. And as long as we continue to do that, we will keep the economy of Bombay moving."

The question that Bombay's planners have been asking urgently for the past 15 years at least is how to keep it moving. Traffic flows into south Bombay are already at bursting point. Each day almost 4m people flow into the capital by train, 3m by bus and more than 1m by car or taxi. On some rail routes, 4,000 passengers cram into rolling stock designed to carry 1,800. According to Mr V.K. Phatak, chief planning officer of the Bombay Metropolitan Region Development Authority, these traffic flows are on course to double by 2011, by which time the city's metropolitan population is expected to exceed 22m.

Thus, from the calm offices of the BMRDA in the northern suburb of Bandra-Kurla, itself an attempt to create a business centre to draw workers out of crowded south Bombay, Mr Phatak and his team are working on Bombay's second major urban transport project. It is founded on a study commissioned by W.S. Atkins, the UK civil engineering consultants, which made the following recommendations:

- that emphasis in improving links into south Bombay should be laid on improving suburban rail networks, as the most land-efficient means of increasing traffic capacity;
- that improved bus transport should be given second priority;
- that every effort, including increased parking charges and even car user fees for driving in congested south Bombay, should be made to reduce private vehicles on Bombay's crowded island. The number of private vehicles on Bombay's roads is rising by about 12 per cent a year, a rate of 150 a day which planners expect will accelerate as new foreign-brand cars come onto the Indian market in the next 18 months. Already, the municipality bans three-wheeler autorickshaws from operating on south Bombay's roads;
- that the existing transport institutions should be reviewed and reformed. Bombay's suburban rail network, for instance, forms part of the giant state-run Indian Railways, "so it's given much less priority from the centre," says Mr Phatak. He says the authority is mooting the establishment of an autonomous Bombay rail transit authority, something which might offer the city managers more control over fares as well as services. Bombay urban traffic accounts for 50 per cent of the total traffic flows on the Western Railways network.

More detailed studies are in progress on each aspect of the Atkins blueprint. But Mr Phatak says the main points of the plan are already clear for a project expected to cost Rs30bn, mainly on widening rail links and improving main roads. The World Bank is already considering BMRDA's proposals and, says Mr Phatak, a first loan agreement could be signed by April 1997, with some finance available from the Bank a year earlier. The Bank has already undertaken to finance 60 per cent of the Rs4bn needed for resettlement of those affected by the road and rail link improvements.

For reasons both of expense and greater disruption to Bombay's cheek-by-jowl housing, the authority has rejected, for now, notions of building big new freeways or flyovers. Existing rail lines will be widened and roads upgraded. For the same reasons, says Mr Phatak, some of the grander schemes proffered by foreign engineering contractors for bridge-tunnel links east across the water from south Bombay to New Bombay, or sweeping highways from Bandra to the north down the coast to Worli in Bombay's centre are "fairyland for the time being".

Not only might it prove immensely difficult for contractors to construct the necessary long-term finance for such build-own-transfer schemes given India's immature capital and debt markets, but many in Bombay reckon that such plans would also meet strong and influential opposition from the property barons who are perfectly happy with south Bombay's inflated real estate prices. A link to New Bombay might deflate prices pretty smartly.

In the meantime, the private sector is looking elsewhere for opportunities from Bombay's transport problems. For instance, Mahindra & Mahindra, one of Maharashtra's biggest industrial groups, is considering setting up a marine transport service to ferry commuters from the northern suburbs to south Bombay by hovercraft and catamaran, and link the busy business district across the wide harbour to the south. Mr Arun Nanda, executive director of M&M, says he believes the service down Bombay's west coast could cut to 40 minutes the present two-hour haul from the northern suburbs – while helping clear the roads of traffic.

The group has already formed a marine transport company, initialled an understanding for the purchase of a hovercraft and is now half way through the tedious task of seeking the necessary government and municipal approvals. However, it has still to find satisfactory landing sites, particularly on the shores of south Bombay.

Even so, for the next few years Bombay's long-suffering, sweltering commuters will have to crush in tighter on the trains and wait longer in the traffic jams. At least they will have the consolation that they will be followed a few hours later down the same lines by their lunches.

Mark Nicholson takes the political temperature

Why Congress need not give up hope

Whatever the deeper, at times murky, machinations which have coloured Maharashtra politics, state officials had grown used to boasting that stable government had always been a chief factor underpinning the economic pre-eminence and healthy finances of India's third biggest and third most populous state.

Until March this year the state had been governed by only one party since its creation in 1960: Congress, which in turn has governed India for all but a handful of years since independence.

But India's political winds seem to have swung against Congress, which has lost a string of vital state polls since late last year. Nowhere was the shock to the party greater than in Maharashtra, or potentially more significant for the party's broader fortunes. Perceiving the Congress government of Mr Sharad Pawar to be tired, corrupt, divided and increasingly cynical, voters returned in its place the right-wing, Hindu nationalist alliance of the Bharatiya Janata party and Shiv Sena, its more extreme, indeed fire-breathing partner.

But the Hindu nationalist partners represent quite distinct political strands. The BJP has national political presence and aspirations and is seen broadly to represent a higher-caste and commercial middle class. Whatever its reservations about the entry of some foreign investment and business into India, in essence it approves of the present Congress government's drive to deregulate the economy and senior Maharashtrian businessmen consider it firmly on their side.

Shiv Sena, on the other hand, is a more narrowly focused party of the lower castes and urban dispossessed, strong in the poorer margins of Bombay, its political centre of gravity. In these homelands it has acquired, perhaps even nurtured, a thuggish reputation. Above all, it is the creation and political baby of Mr Bal Thackeray, 68, the charismatic and outspoken ex-political cartoonist who leads the party and formed it as a Maharashtrian nationalist party backing jobs for the "sons of the soil", originally against the perceived threat of south Indian migrants drawn to India's richest state.

This nationalism also embraces a deep antipathy towards Maharashtra's Moslem community. Mr Thackeray has zealously supported chasing out "illegal" Bangladeshi and Pakistani immigrants from Maharashtra, adding a distrust for "pro-Pakistan" Moslems in general. His well-organised supporters on the ground have, not least during and since the 1992 and 1993 Bombay riots, made the party greatly feared among Moslems.

But many analysts believe it was not so much a Hindu nationalist renaissance which won the state election, more a divided Congress which lost it. Congress in fact scored 2 per cent more of the vote than the BJP-Shiv Sena allies, whose 29 per cent share nevertheless returned them 138 of the 228 seats in the state assembly; a fractured state Congress party found its vote split by embittered rebels standing against official candidates – the rebels claiming fully 23 per cent of the vote.

And Moslems, more than 10 per cent of Maharashtra's population, deserted in droves a party they accused of sitting on its hands while Hindu gangs – Shiv Sena activists most prominent among them – ran amok in the Bombay riots of December 1992 and January 1993, slaying hundreds of Moslems and torching their slum quarters citywide.

Some within Congress pin the defeat more specifically on disillusionment, inside the party and outside it, with the manner of Mr Pawar's rule. "The election was not won or lost on any political issue," says a senior Congressman. "It was won and lost because of opposition to Mr Pawar. There were unproven allegations of corruption, and we could not succeed in removing the bad impressions."

With national elections due next year, some argue, a re-united Congress could well revive its fortunes in one of the country's most important states. "Congress did not do as badly as it may seem," says Mr Kumar Ketkar, editor of the Maharashtra Times. "But it has been so disorganised it will take some time to recover from the shock – it's somewhat like the British Labour party after Mrs Thatcher came to power."

Nevertheless, corruption and the "criminalisation" of Maharashtrian politics formed a platform on which the BJP and Shiv Sena fruitfully campaigned with united fervour in the state poll. They made much of Mr Pawar's alleged links to the Bombay underworld and questioned the propriety of his government's negotiations over the now highly controversial $920m Dabhol power project, led by Enron Corporation of the US.


Manohar Joshi: does he hold the reins of power?


Sharad Pawar: Congress fortunes may revive

Whipping up nationalist ire at the Dabhol project formed part of a further rallying point – the accusation that Congress-led liberalisation was encouraging the economic neo-colonialism of Maharashtra and indeed India. The BJP-Shiv Sena politicians claimed they would instead "put Indian companies first" and discourage foreign investment in fields such as consumer goods industries. More broadly, the alliance claimed that the Congress-led liberalisation policies of the past four years favoured the rich over the poor – a claim easy to dramatise, if harder to prove, in Bombay, city of India's best-paid bankers and biggest slums.

From this foundation the alliance raised a highly populist programme. It would build 4m new dwellings for Bombay's slum-dwellers, provide a basic meal of spicy chapatis for everyone at just Rs1, it would fix the prices of five basic foodstuffs to the end of the century. Such promises, nourished on Congress fatigue, returned Maharashtra's new rulers.

But winning the election looks to have been the easy part. Only a few months into its rule, the BJP-Shiv Sena combine has already found it rather more difficult to practise than to promise. More fundamentally, it has also begun to evince serious strains between the two partners, whose political constituencies and ambitions are considerably divergent.

The practical snags faced by the new administration are manifold, but attributable, argue many commentators in Bombay, to inexperience. Shiv Sena politicians, who are in the majority in the alliance and provide in Mr Manohar Joshi the state's new chief minister, have hitherto held only municipal office.

The government has, indeed, frozen the prices of rice, wheat, cooking oil and basic pulses at the level of June 1 this year, and says these prices will stick to 2000. But its ambitious slum development plan is already bogged down, delayed and being pushed back in time-honoured manner to the committee room. Its programme to provide *zunka-bhakar*, a meal of bread, onions and chillies for only Rs1, is to be relaunched following disastrous losses. The notion had been that the cheap meal, made available from hundreds of roadside foodstalls, would be cross-subsidised by vendors adding a rupee or two to the prices of other goods. But of course, no-one bought anything other than the Rs1 bargain meal.

More seriously for the BJP-Shiv Sena alliance has been the controversy over the Dabhol power plant. Once in power, the government immediately launched its promised review of the project, which is due to go before the cabinet at the end of this month. But the row over the plant, the biggest prospective US investment in India and one seen as symbolically critical to all efforts to induce vital foreign capital into the country's ailing power sector, has thrust Maharashtra's inexperienced government immediately into an India-wide and international controversy.

Mr Joshi and his fellow ministers claim their quibble is only with this particular deal and not with foreign investment into Maharashtra's "core" infrastructure or industrial sectors per se. Foreign businessmen and trade attaches say Mr Joshi has striven, privately, to assure them that he wants Maharashtra to remain India's biggest draw for foreign investment. However, he has so far been shy about spelling out such reassurances in public.

The impression left, after the government's first few months, is that the BJP, in particular, has been hoist on its own election campaign petard. Many also harbour the queasy sense that whatever the individual dedication and competence of Mr Joshi and other Shiv Sena members of cabinet, like the widely-admired Mr Pramod Navalkar, the transport minister, they do not hold the real reins of power. Behind the government, and formally outside it, sits Mr Thackeray who claims "remote control" of the Maharashtra state government and maintains tight control of Shiv Sena.

Mr Thackeray has already caused the new government considerable embarrassment. His advocacy of permits for entry to Bombay – to keep out the threat to "sons of the soil" – strained BJP-Shiv Sena relations early on, until the alliance managed to muffle the outrage it raised. An alleged "death threat" – said to have been from "Bangladeshi Moslems in Bombay" – prompted Mr Thackeray to promise, "If anyone threatens me in this manner, my Shiv Sainiks will eliminate the community." He added. "There will not be a sign left of that community on earth, and I give this order to the Shiv Sainiks not to wait till the 11th hour to do this."

Such utterances from a man who once said "Adolf Hitler had some good ideas, but perhaps he went too far with the Jews," and who wields considerable power among Shiv Sainiks on Bombay's streets, sits very uneasily with the BJP, which hopes successful governance of Maharashtra might provide a platform for next year's national election campaign and which, as a national party, is doing its utmost to reassure Moslem and other minorities. "Basically," says Mr Ketkar, "the new government is culturally unstable".

Whether it can sustain political stability is presently a moot point. In the end, much will rest on the government's success in providing cheaper food, rehousing more slumdwellers, keeping prices lower and winning a cleaner image than its predecessor Congress regime. But while no-one can tell which button will next take Mr Thackeray's fancy on the remote control, neither can the BJP rest easily, nor need a regrouping Congress party give up hope.

■ EXECUTIVE SALARIES

It's cheaper to go elsewhere

As Bombay salaries have escalated, companies are thinking of moving further afield, writes Richard Donkin

Salaries in Bombay's executive jobs market have doubled and in some cases tripled in the past two years, chasing the expanding financial sector and spiralling property prices.

Mr O.P. Mehra, a Bombay headhunter, says that salary packages of US$10,000 were common only two years ago. "Now no senior financial person will work in any company for less than $20,000," he adds.

For example, while an experienced chartered accountant would have previously commanded about $10,000 a year, today the candidate would be getting $20,000 to $30,000.

"Some jobs, such as that of equity research, have emerged that did not exist at that time," says Mr Mehra. In corporate finance, he says, young people with two or three years' experience are getting $25,000 or $30,000. An executive in consulting can get up to $40,000, plus profit-sharing bonuses.

The way that salaries have escalated can be seen in the average salaries for placements made by Mr Mehra's company, Omni International, over the past three years. In the financial year 1991-92, the average salary was $4,000 a year. The following year it was $5,800, and in 1993-94 it was $11,200. His placements range from middle to senior management, often in the $11,000 a year category. But the highest salaries are growing constantly. Last year his highest paid placement was $60,000, this year so far it is $105,000 for a computer company and he has more in the pipeline.

Executive search was virtually unknown in Bombay 10 years ago. Now there are about 20 local agencies, although some of these are employment agencies catering for the mass market.

The business is beginning to see a worrying development, however. Because of prohibitive apartment prices it is becoming difficult to attract people from outside Bombay, leading to a constant circulation of its existing executives.

Poaching has grown common and the market is also being plundered by overseas companies, particularly from Singapore and Hong Kong but increasingly from Europe and the US.

Not only are people becoming difficult to attract, but companies which do want to come to Bombay are also being deterred. "I had one client who wanted to bring his computer company to Bombay. He thought it essential to be here. It would have entailed renting an office at Nariman Point," says Mr Mehra.

The client needed an office of 5,000 sq ft, which would have cost $50,000 a month to rent, in addition to a deposit of $3m. Housing its four executives would also have required hefty upfront deposits for their flats. "Simply to become installed there would need an outlay of $10m," Mr Mehra says. Instead, the client moved to Bangalore, centre of India's software industry, for an office rent that was a fraction of what he would have paid in Bombay.

Many other companies already established in Bombay are looking at whether they need to maintain all their staff in the city. Some companies are paring down their Bombay operations and relocating some of their staff outside in cities such as Bangalore and Madras.

"The way that the property market has gone means that many companies are questioning whether they really need to come here," says Mr Mehra.

MAHARASHTRA 4

Richard Donkin on a market that seems out of control

Property prices hit the roof

Bombay's smart set rarely get beyond the first course at dinner parties these days before the conversation turns to property prices. One hears echoes of the UK during the mid-1980s, only perhaps the property market in Maharashtra is inflated less by speculation and more by restrictive development laws that have stifled expansion.

Rapid growth in the financial sector and the daily influx of jobless migrants from rural areas have led to shortages all round, both in commercial and residential property. These combined pressures have also highlighted the polarity between rich and poor. While a choice apartment in one of the more exclusive high rise developments might change hands for $2m, a few hundred yards from the door people are sleeping on the pavements.

Residential apartment prices have got so high that some companies prefer to house executives and their families in hotels. A count late last year found 110 families living in the Taj Mahal and the Oberoi hotels on a permanent basis.

Any kind of property, even the smallest slum, seems to have a price. A self-built house without lavatory or running water in a slum on the fringe of Ghatkopar, a Bombay suburb, would fetch about £5,000, even if it were a squatter home no larger than a one-car garage. Few such homes are thought to change hands, however, and all sales are unofficial because the owners have no title to the land.

While the struggle at the poorest end of the property ladder is to have any kind of living space, escalating prices at the top of the market have placed the cost of a Bombay apartment on a par with New York, Geneva and Tokyo. Although the residential property market may have peaked, inflationary prices have begun to deter foreign companies from bringing in expatriate employees and other Indian companies from settling in Bombay.

The most frustrating aspect of the market is that there is probably sufficient development land to satisfy much of Bombay's commercial and residential needs in the textile belt on the periphery of the city centre. This once-thriving industrial centre has become scattered with derelict or semi-redundant mill and factory sites, ripe for redevelopment.

Instead, the sites have become blighted by misconceived social legislation that has done little to promote the interests of the poorest members of the community that it was designed to protect.

In some mills the workers are turning up every day to play cards while the owners, who have abandoned production, continue to pay their wages in the hope that sooner or later they will be able to cash in by selling their golden asset. Others are waiting to cash in, too. The development sites sometimes attract Bombay's Mafia gangs, whether seeking protection money or to influence a deal. One mill-owner was recently shot dead in what looked like a gangland killing.

The law does not allow mill-owners to close their factories, flatten their sites, sell them for development and move elsewhere. Textiles can be and are produced much more cheaply outside Bombay but the state legislation was designed to protect the rights of employees. Companies need special permission if they want to lay off employees and must pay compensation.

Even if owners are successful in closing a plant and funding negotiated voluntary retirement packages, they have surmounted only the first hurdle. The Urban Land Ceiling (and Regulation) Act, enacted in 1976, placed a limit on the development size of any plot of urban land larger than 500 square metres. There is also a ban on changing residential space to office use (although some get around it) and property transfers carry a 10 per cent stamp duty.

The result has been that development has been stymied. In spite of the financial boom, there is hardly a crane to be seen on the Bombay skyline. Construction work that could provide jobs for the card-players cannot get the go-ahead.

There is a way to develop the mill sites but it is complicated. A third of the land must be given to Bombay municipality for parkland, a third goes to the Maharashtra Housing and Area Development Authority and a third is retained by the developer.

Progress on the scheme has been slow. Four years after the regulations were introduced, work has at last begun on the first such development, at Matulya Mills in Lower Parel.

The jumble of shacks and crude dwellings in the slum settlements are protected by the Slum Act that in effect gives their inhabitants squatters' rights over the land. A slum improvement programme apportions funds for lighting, drainage, roads and lavatories. Its aim, it says, is to ensure that slum dwellers have "basic amenities on the scale of one lavatory seat for 20 to 50 persons, one water tap for 150 persons, one street-light for every 30 metres of street and drainage, roads and pathways".

The development authority also has a "mass housing project", but that may be a misnomer. The need for a more intensive programme was recognised by the BJP-Shiv Sena alliance, when it promised during the election campaign to erect a further 800,000 homes for 4m people, but this programme has yet to be put into practice.

However, the Maharashtran state has instigated other schemes designed to upgrade old city centre apartments that are usually neglected by landlords. But the process is cumbersome and the law has done little to promote privately funded regeneration. The rent act is weighted in favour of the interests of the tenant and rents are often frozen at the levels when the tenants took up occupation.

One businessman said that his grandmother, living in a fashionable seafront flat in Marine Drive, was paying the same rent – $10 a month – that she paid when she moved in during the late 1940s. Because of such stagnation, the rental market has virtually disappeared. Landlords have every incentive to neglect their buildings, which are almost worthless if they have sitting tenants. Many leave their flats empty. There are thought to be over 60,000 vacant apartments in Bombay.

The way that short-term rents are secured is to pay a large returnable deposit for a three-year period. The landlord enjoys the interest on this over the period. In south Bombay a flat for a chief executive, say, would require a minimum deposit of $1m. The reason that landlords value the deposit more than rent is that the deposit gives them a chunk of cash which they can manage and manipulate so

Any kind of property, even the smallest slum, seems to have a price — Richard Donkin

that they will pay much less tax on it than would be the case with rent. Many executives who rent properties also prefer the deposit system for tax reasons.

Commercial prices are equally exorbitant. A recent survey by Richard Ellis, property consultants, put Bombay's office rental costs above those of Hong Kong and Tokyo. Office space in the Narriman Point business district was quoted at $12.12 per sq ft a month. One businessman says: "When you consider that the space occupied by my waste-paper bin costs us £1,000 a year it doesn't bear thinking about."

Some believe that only radical reform of the laws regulating property deals can relieve the problem but market liberalisation has yet to filter through into the property sector. Mr Nasser Munjee, executive director of the Housing Development Finance Corporation, a housing finance company, says that rent controls have deprived local government of what would otherwise be an important source of revenues. Tax revenues on trucks coming into Bombay far outstrip those from property.

Mr Munjee advocates a vacant land tax instead of land controls, to force land onto the market. He also says there is need to get rid of rent controls for future tenancies and commercial tenants. The controls, he says, protect existing tenants at the expense of all future tenants.

He suggests that the authorities should take a pragmatic view of existing rentals, possibly dividing the equity in the property between the tenant and landlord. His proposals would in effect replace the decongestion policiea of the 1960s and 1970s. The chances of achieving even a limited amount of change do not look bright at present, though there has been some discussion by the central government. But Mr Munjee's study demonstrates the pressure for land policy liberalisation emanating from the private sector.

In the meantime, speculators are clinging to vacant apartments in the hope of forcing prices higher. This may suggest that prices will fall if the market slackens, as has occurred in the UK, but Bombay has yet to experience this. "It will never happen," said one businessman confidently. "I hope it does but I can't see it."

Nationalists favour Mumbai as the name, but...

Bombay is not yet a dead duck

One form of corruption the new Bharatiya Janata party/Shiv Sena alliance is keenest to clear up is that of the name of Bombay itself. To the state government, if not yet that in New Delhi, the city has always been and should formally be "Mumbai".

Maharashtra's native-speaking Marathis and the tens of thousands of Gujuratis who live and prosper in the city, know home anyway as Mumbai. The name harks back to when the city was a collection of seven settled islands inhabited by the Kolis fisherfolk, the largest of which, now South Bombay, was called after the goddess Mumba-Devi – a shrine to whom stood on the city's main esplanade until well into the 17th century.

By the time the Portuguese arrived in the early 1500s – the sultan of Gujarat formally ceded the islands to Lisbon in 1534 – the name apparently mutated into Bom-Bahia, from the Portuguese meaning "good bay", presumably after the south island's grand, sweeping cove, now Chowpatty beach.

The name's "corruption" then seems to have been completed by the English, who gained the territory as part of the wedding dowry of Catherine of Braganza, who married Charles II in 1661. The English tongue twisted Bom-Bahia through various formulations of Bombain, Bambeye, Boon Bay and, eventually Bombay.

And now back again, if the Marathi nationalist Shiv Sena has its way. Government ministers use "Mumbai", even if India's central government does not, nor yet any of India's vibrant English language press. Even the city's mayor seems in two minds: "Bombay will be Mumbai very shortly," he says. "Once the central government declares it," before continuing to refer to the city as Bombay throughout a recent conversation in English.

Nonetheless, the city's first dedicated cable channel, launched last month by the Hindujas, India's prominent non-resident Indian investors, is in Mumbai. And some wags wonder if the Dabhol power project would have been quite so controversial if Enron had christened it the Mumbai power project.

Mark Nicholson

R.C. Murthy on plans to ease congestion in the state capital

New town would relieve big city

Decongesting the crowded city of Bombay, the capital of Maharashtra, has assumed a new dimension in the era of deregulation and globalisation of Indian economy. A think tank of the state administration has proposed building a new self-contained high tech city. Its location is yet to be decided but the consensus of the officials is that it should be within 200km from Bombay.

Apparently, the move for a new modern township is aimed at the state retaining the lead and staying ahead of the rest of the pack. Maharashtra is one of the top few industrially advanced states. But it had a setback to industrial growth recently. Gujarat walked away with three big projects offering special concessions.

The new township plan is at an embryonic stage but competition among the states to attract foreign and local investment is expected to spur the local administration into action.

The northern state of Haryana is discussing with Japan to build a township on the Japanese model. Singapore has offered to build a modern city near Bangalore, the capital of Karnataka in the south. "A blueprint [of Maharashtra's new township] will be ready within three moths," says Mr Yeshwant Bhave, development commissioner.

What lends urgency to the state's plan is soaring real estate prices in Bombay that are scaring away companies from locating their head offices there. Multinationals that have come to India over the past two years, for instance, have preferred to locate their head offices in New Delhi rather than in Bombay, India's prime commercial centre, Bombay lost out in another respect. Some of those that had their corporate headquarters in Bombay have shifted to other cities recently, for instance Britannia Industries to Bangalore.

> *Multinationals have preferred to locate their head offices in New Delhi*

Real estate prices have hit the roof in Bombay. According to a survey conducted by Fortune magazine late last year, Bombay was the world's third most expensive city ($80 per sq ft) in terms of annual rent on office premises. Tokyo was tha the most expensive at $145 per sq ft, while Hongkong was $96.31.

For outright purchase at the posh downtown Nariman Point the cost is Rs30,000 per sq ft and at midtown Worli Rs20,000 per sq ft. In the uptown Bandra-Kurla area, the site earmarked for building a modern financial centre, the price is around Rs15,000 per sq ft.

McKinsey, the international consultants, recommended revitalising Bombay as a services capital. It proposed the state administration should strengthen the current position of Bombay as the dominant finance centre and gateway to the Indian capital markets. McKinsey was commissioned two years ago to formulate an action package for positioning Maharashtra for economic leadership in the liberalisation era. The action plan incorporated three other important suggestions.

- To evaluate the feasibility of building a large services-oriented free trade zone to leverage the air and sea access available.
- To develop and promote the city's global R&D centre role.
- To reinforce Bombay's role as the capital of the Hindi film industry and to expand it into a regional entertainment and media centre. Bombay is an island, bursting at its seams, with nearly 10m population. Any expansion can take place by either constructing high-risa buildings or at a minimum 25 kilometres' distance from Nariman Point up north.

As a result, slums have multiplied. Bombay boasts Asia's largest slum called Dharavi, in the centre of town. Dharavi is a quarter century-old problem and may last probably another quarter century unless the new township proves a counter-magnet to draw away the unemployed, who make a beeline to Bombay now.

The state administration has thus twin priorities of improving the quality of life in slums and attracting foreign and Indian businesses to set up shop in Bombay or the new township. A special body, called City Improvement and Development Corporation, was set up in 1970 with a mandate to build in phases a new 350 sq km city on the main land across Bombay.

Cidco has spent Rs33.18bn over the past 25 years on what is known as New Bombay. But only seven out 21 sub-projects, into which the planned New Bombay was divided, have been executed. Cidco has proved unequal to the task. It had a 30-year horizon to house 2m people in New Bombay. In contrast, the average daily influx into Bombay has been 900, says the corporation.

The infrastructure has been fully stretched as more than 30,000 people are added every year. In addition, Cidco has suffered from financial constraints and was in no position to accelerate its tempo. Probably, if it had had the required cash, Cidco would have conceived and planned bigger; and would have executed faster than the pace over the past half century.

It will be a tough task to build the new township that Maharashtra wants and Cidco may have to harness overseas expertise to plan and finance the project quickly, in order to make it acceptable to the international investor.

Nazneen Karmali on another shift away from Bombay

Pune 'on verge of taking off'

Bombay's rocketing rents and real estate prices are turning people away to other cities. One of these is Pune, on the eastern foothills of the Sahyadri mountain range, 192km or a four-hour train ride from Bombay. For many years, the city's laid-back charm and salubrious climate have made it a haven for retired folk. Now, much to the dismay of these pensioners, paradise is changing fast and acquiring big city traits.

With the construction of new shopping complexes and apartment blocks, Pune's skyline is rising. Hotels are packed to capacity with business visitors, making it impossible to get a room at short notice. As roads get clogged with increasing traffic, long-time residents fear that Pune may soon go the Bombay way.

The influx into Pune reflects its emergence as an important industrial centre. There are 7,000 units, big and small, representing a capital investment of Rs39bn. "Pune is on the verge of taking off," says Ms Neelam Khandke, secretary general of the Mahratta Chamber of Commerce and Industries. Established 60 years ago, the chamber is Pune's primary trade development organisation and has been fairly active. It has launched a bank, set up the city's stock exchange and two industrial estates.

Ms Khandke says that the chamber is trying to persuade Bombay-based companies to shift their back offices to Pune. Commercial space costs a tenth of what it does in Bombay and residential property is much cheaper. The latter is important because in India, executive pay packages usually include a company-provided house. Last year the chamber introduced a business facilitation service for multinational companies that helps them identify potential joint venture partners and with mundane matters such as car rentals and hotel bookings. The hard sell seems to be working. Companies have become significant buyers of real estate, according to Ms Khandke, and prices have increased by 50 per cent over the past six months.

Kimberly-Clark, which has recently set up a joint venture with the Unilever group, has its corporate office in Pune and its factory will be located nearby. Mercedes-Benz is putting up its first car plant in India at an industrial zone close to the city. Pune may also be the site of another big car project, a joint venture between Ford and Mahindra & Mahindra, the local automobile manufacturer.

Car companies are attracted by Pune's large base of engineering companies and manufacturers of components. These were established in the 1960s when industrial development began to pick up in the region. Until then, it had remained largely a sleepy cantonment town with industry being restricted to a few government-owned defence factories. Occupied by the British from the early 19th century, Poona, as it was then called, was historically an important military centre. In the 17th century, it had been the capital of the Maratha empire and home to Shivaji, the powerful Maratha warrior.

> **It has a reputation for education and residents are not averse to drawing a comparison with Oxford**

Residents take more pride in their city's age-old reputation as a centre for education and research and are not averse to drawing a comparison with Oxford. The popular Fergusson College is more than 100 years old and within the premises of the University of Pune is the Centre for Development of Advanced Computing.

Factories are located within a 50km radius with the highest concentration along the Bombay-Pune road. This area is one of the largest industrial complexes in Maharashtra with companies such as Alfa Laval, Atlas Copco, Cummins, Buckau-Wolf and Sharp. Apart from such multinationals, there is a sizeable chunk of local enterprises. Pune has its home-grown enterprises such as Rahul Bajaj whosa company, Bajaj Auto, is the country's largest manufacturer of two-wheelers.

Mr Prahlad Chhabria, chairman of the Finolex group, a cable manufacturer, says that Pune's industrial development has been well-planned, with the state government earmarking specific zones for industry. But the advantage of having industrial units widely dispersed is lost since there is no public transport facility. Companies are therefore forced to maintain their worn fleet of buses to ferry their workers to and fro.

Mr Chhabria, who is also the president of the Mahratta Chamber, is one of the early settlers, having started his company in 1959. He says there is no more room for metal-bashing industries, but services such as software development and finance companies are welcome. The chamber has prepared a proposal to establish a financial park in a 3,000-acre complex that will be exclusively for financial companies. Firms such as Oppenheimer & Co and the Soros group have expressed interest.

Pune is also an important hub for food exports, being the city nearest to the state's agricultural hinterland. A number of floriculture projects have been set up, prompting the chamber's proposal to establish a floripark. But such ventures face a disadvantage since Pune has no air cargo complex and produce has to be rushed to Bombay by road.

Mr Chhabria is concerned that the government's investment in infrastructure is not keeping pace with industrial growth. "There are so many plans made that just don't happen. The government seems to be spending all its money on planning," says Mr Chhabria. He points to the poor condition of the city's roads; the rising population is putting a strain on infrastructure. He also cites the example of a proposal to set up an industrial exhibition centre which is awaiting government approval.

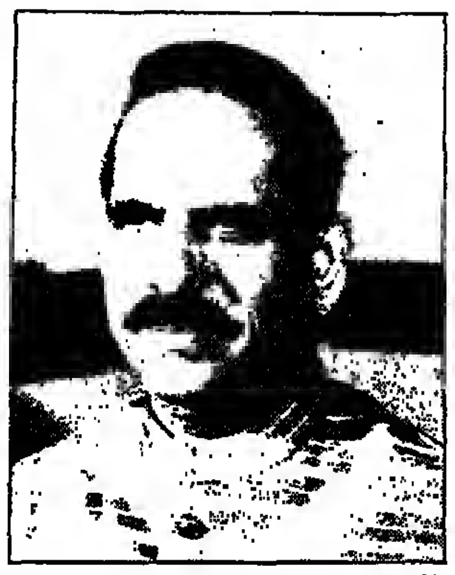
Most critical for Pune is the long-awaited construction of a freeway system that would cut down the travelling time and distance to Bombay. The existing Bombay-Pune road is a driver's nightmare; potholes and traffic often make the four-hour commuter journey a much longer one. The freeway would make Pune virtually a suburb of Bombay.

MAHARASHTRA

THE MOST ATTRACTIVE INVESTMENT DESTINATION

Maharashtra, India's premier industrial State provides vigour and thrust to the national economy which is growing today at over six per cent. With a strong base of infrastructure,skilled and English-speaking human

resources from drawing board to shopfloor, abundant raw materials, positive work culture and backed by investor-friendly mindset of the Government, the State has emerged as a powerful magnet to attract transnationals. No wonder that since 1991 many transnational giants opted for Maharashtra as their choice, to wit, Coca-Cola, Kellogg's, DuPont, Asahi, Procter & Gamble,


Chief Minister, Manohar Joshi

Merrill Lynch, Jardine Fleming, JP Morgan, Morgan Stanley, Orix, etc. An investment of the order of US $ 35 billion is currently taking shape in Maharashtra. Mumbai, the capital of Maharashtra and the most cosmopolitan city in India is a port of exit for two thirds of India's exports and accounts for over 70 per cent of the share market transactions.Add to it all, the fact that the new Government is determined to turn the State into an industrial and economic superpower. Keeping this in mind, the Government has instituted Udyog Mitra (literally meaning 'Friend of Industry') a superb inter-institutional framework consisting of the chief executives of all the developmental agencies to facilitate setting


Maharashtra- The gateway to investment opportunities

up of your projects. It has designated SICOM as the nodal agency for all Non-Resident Indian and Foreign Direct Investment. Please feel free to write, phone or fax, if you want to know more about how Udyog Mitra functions and what it can do for you.

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UDYOG MITRA 'NIRMAL', 12TH FLOOR, NARIMAN POINT, MUMBAI - 400021. (INDIA). PHONES: ++ 91-22-202 1855, 202 3018 FAX: ++91-22-202 3008.

Richard Donkin on a project which may prove a touchstone of foreign investment in the state

Dabhol threshold must be crossed

The large expanse of ruddy soil and lava rock at Dabhol on Maharashtra's Konkan coastline looks like a moonscape after the excavators have done their work. The first concrete foundations have been poured into the block designed to support one of India's most ambitious power projects for decades. But nothing here is set in stone, as Enron, the US power company, has discovered.

Enron intends to build and run a $920m, 2,015 megawatt power plant on the 700-hectare site. The scheme, however, has become the focus of a political stand-off that has reverberated as far as Delhi. In many ways the story of Dabhol goes beyond politics and touches sensitivities embedded in the Indian psyche, stirring an uneasy mix of business, politics and emotion.

> In a typical piece of political rhetoric, the energy minister promised to "bundle Enron into the sea"

On the surface, the issues look straightforward and familiar. A large US power corporation descends on a rural community in western India to start work on an ambitious electricity generation project. Farmers have oo option but to sell their land. The big company clears everything in its way. Protest is ignored in the name of progress.

The villagers, whose community has been undisturbed for centuries, must stand aside. The company is bringing a school, a hospital, new roads and fresh water. Life will be better than before and the plant will generate power for everyone, thousands of new jobs and breathing new economic activity into the area. In the words of a senior Enron executive: "Twenty years later people will wonder what all the fuss was about."

Enron, which owns 80 per cent of the Dabhol Power Company – it has brought in two other US companies, General Electric and Bechtel, each with 10 per cent stakes – is well aware of the issues. The arguments for and against such schemes have been debated the world over, with development usually the victor.

That indeed may be the way the story turns out but Enron has been forced to confront a disturbing alternative – a cancellation of its scheme, with protracted legal battles, continued site protests, disturbances and delays even if it can successfully resist such a move.

Cancellation is a real possibility pending a review of the project currently under way by the Maharashtra government. The 695 megawatt first phase of the scheme was approved at the turn of the year and the deal closed in March, but the ruling Congress party in Maharashtra was defeated in the state elections by an opposition alliance between the Shiv Sena and Bhartiya Janata parties later that month.

The opposition came to power on a ticket that included a pledge to throw out the Dabhol project. In a typical piece of political rhetoric, Mr Gopinath Munde, minister in charge of energy, promised to "bundle Enron into the sea". On several occasions Mr Bal Thackeray, leader of the Hindu Nationalist Shiv Sena party and the power behind the Maharashtra government, has threatened to cancel the project.

The alliance has argued that the contract was awarded unfairly because it was never put out to tender from competing bidders. There are suspicions of corruption and there are also doubts about the pricing of the electricity. Congress has defended its approach, saying that it did not want a tendering process to delay what it saw as a fast-track infrastructure project spearheading foreign investment in the drive towards market reforms.

After the failure of successive court actions attempting to baulk the scheme, with government approval to go ahead, the drawing down of some $250m in commitments covering contracts signed, and finance in place, work is now in full swing at the site. The central government in Delhi has assured its support for the project, which is the single largest US infrastructure investment in India.

The 695 megawatt station, due to come on stream in December 1997, will burn distillate oil initially but with the completion of the 1320MW second phase due two years later the entire plant will convert to liquid natural gas, to be shipped from Qatar.

On the ground, however, construction workers are facing almost daily opposition from protesters, many of whom, says Enron, are being bussed in from outside the area. In May the protests turned ugly when workers at the site were attacked by about 400 activists.

The site was closed for a few days but work is continuing with about 1,600 people now employed daily on the project, protected by more than 300 police officers. This is not without significance since it shows that, in spite of its rhetoric, the new state government is determined to maintain order.

Electricity consumption

Source: Government of Maharashtra

The disruption and political opposition are developing into a test of nerves. Banks financing the deal had trusted the assurances given in Delhi to Mr Ron Brown, the US commerce secretary and Ms Hazel O'Leary, the energy secretary.

The assurances have been maintained. Mr P. Chidambaram, the Indian commerce minister, says: "At the end of the day Dabhol will be cleared by the state government." As the review continues, however, the Dabhol scheme, which initially might have been regarded as simply the first in a series of big infrastructure investments involving overseas companies, has taken on a far greater importance and an uncomfortably high profile.

Senior bankers say it has become a symbol for future foreign investment in India. A delegation of British businessmen which visited Maharashtra earlier this month told state ministers that cancellation of the scheme could lead to India losing out on foreign investment. At the very least, they warned, India would face higher costs of raising foreign capital because of the added political risk.

While awaiting the outcome of the review, the company has been vigorously making out its case. Enron stresses that the state government did not set a precedent in India by opting to dispense with competitive bidding for Dabhol and that there is nothing illegal in selective negotiation. It says its tariff, fixed at Rs2.40 per kilowatt hour, compares reasonably with tentative tariffs for other prospective power projects and will lead only to a small increase in the average or pool price of electricity. It also points out that no other company is standing on the sidelines waiting to come in if Enron's scheme is cancelled.

Without the scheme, it says, the region will not be provided with adequate power. There are some 3,000 megawatts of commitments for new capacity and these are expected to grow to 6,000MW by the year 2000. Bombay's business lobby is pressing for the scheme to go ahead, arguing that a reliable power supply is badly needed.

Enron believes it has a strong case against environmental opposition. Ms Rebecca Marks, its chief executive, points out that the site had already been chosen for a power plant by the Maharashtra State Electricity Board, partly because it is ideal for the construction of a deep water terminal.

Comparing gas-fuelled power to coal, Ms Marks says: "Maharashtra burns 60,000 tonnes of coal every day for power generation and this produces 20,000 tonnes of ash deposited in giant piles around the state." Distillate and gas-fired plants have no particulate emissions and prodnce no acidic ash.

Ms Marks rebuts claims that the project will disturb the fishing industry or farming nearby. She clasps her forehead in exasperation when asked about local npposition. "We have not displaced one village, one pony, one dog, nne mango tree," she says.

Some businessmen have voiced private fears that the deal could blow up into a scandal of Bofors proportions but, for that to happen, the review would need to show that corruption was involved. Enron is emphatic that the deal is clean. "I tell yon this, in three years of working here and leading negotiations personally, we were never approached or asked for so much as a cup of tea. It just didn't happen," says Ms Marks.

However, for all Enron's lobbying, the stakes have been raised by the election success of the BJP-Shiv Sena alliance. The BJP, in particular, may be tempted to continue to use the issue as a political football in the belief that it could kick it all the way to Delhi.

Some observers think that the politicians will not go so far, that pragmatism will prevail and that a few more concessions may be wrenched from Enron, leaving honour satisfied on both sides.

The warnings nf foreign investors may have been nverstated, although the argument that cancellation of the project would lead to greater expense seems compelling. The momentum for liberalisation may prove so overwhelming that hard-nosed overseas investors might decide that Dabhol is no more than a hiccup in the unstoppable trend of Indian market reform.

Whatever the outcome, the affair has proved a salutary experience for those involved. It has become clear that large inward investment projects must be handled with extreme sensitivity and proposals must be sold to the public as much as to politicians. Competitive tendering is likely to be demanded in many more cases.

Enron points out that its commitment to Dabhol is not that of "build and leave". It will run the power plant and has an agreement that the Maharashtra State Electricity Board will buy its power for the next 20 years. The project has many pioneering features.

> The BJP may be tempted to use the issue as a political football in the belief that it can kick it all the way to Delhi

It is the first international project finance to use long-term fixed rate debt. Foreign lenders inclnde US Exim, the Overseas Private Investment Corporation, Bank of America and ABN Amro which are committing $548m. While uncertainty exists, however, a senior financial adviser to the deal admitted that, although the loans are fully underwritten, syndicating them will be difficult.

If foreign infrastructure investment in India is standing at the threshold, that threshold is Dabhol. Enron admits, with hindsight, that perhaps more information should have been provided to win over the hearts and minds of Maharashtrans. The legacy of the East India Company, coupled with Gandhian distaste for foreign corporate control, has left Indians with a deep suspicion of such investment. If that can be assuaged, the state of Maharashtra and all India may eventually look back and wonder what the fuss was about. After all, it was Indira Gandhi who said: "There is no power more expensive than no power."

■ BUSINESS GUIDE

Book a room, hire a car

Virtually everyone doing business in Maharashtra will stay, or at least pass through Bombay, India's richest, busiest and most vibrant city. But it is also the most slum-strewn and, in the sticky weeks before the monsoon sluices mild chaos onto its potholed roads, often the smelliest.

Getting there is the least problem: Bombay airport is as well served by the world's airlines as any Indian city. The recent addition tn India's skies nf a host of private players means there is often a daily choice of flights by such companies as Modiluft, Jet Airways, East-West Airways and Sahara to most other Indian cities. All offer better service and punctuality than the state-run Indian Airlines – though since most companies work their limited fleets hard, schedules sometimes come unstuck for late evening flights.

Before arriving, it is also worth calling the hntel to have an air-conditioned car waiting. At peak times the journey to sonth Bombay will take more than an hour and, though Bombay's climate is cooled by the sea, it can be a sweaty place between May and September. For a day of successive meetings, hiring an air-conditioned car for the day from the hotel is far more comfortable than taking a chance with non air-conditinned taxis.

It is imperative tn book hotel rooms well in advance of arrival. Bombay has few full-service business hotels and, because of a rush of new expatriate workers and the premium on property, many companies have in effect taken rooms on a semi-permanent basis. A recent US embassy study found more than 100 long-term residents in Bombay's two top business hotels.

The premier hotel is the Taj Mahal, postcard pretty on the seafront by the Gateway to India and no more than 10 minutes' taxi ride from the business centre of Nariman Point. Rooms, and especially telephone calls, are not cheap – the rack rate is more than $200, though discounts are negotiable. Call early enough and it is possible to reserve rooms in the more agreeable old wing, and ask for a sea view.

Alternatively, there are the two adjoined Oberoi hotels, each also within easy reach of the business centre and the Mantralaya, Maharashtra's Whitehall. Room rates are similar to the Taj. A cheaper, bnt efficient and comfortable option within easy hnsiness/gnvernment/stock exchange range, is the President on Cuffe Parade, where rooms are around $150 a night.

Each of the hotels offers good dining. The Tanjore in the Taj is a good traditional Indian restaurant offering excellent thalis. The Thai restaurant in the President also serves fine and reasonably-priced lunches.

Elsewhere, there is Ling's, a busy Chinese restaurant two minntes' walk from the Taj and behind the Regal cinema, but, as with all Bombay restaurants, go before the dinner-time rush at around 9pm, nr book. Booking is also essential at the trendy Khyber, npposite the Jehangir art gallery, which offers excellent Mughali/Punjabi cuisine and hair-curling cocktails.

Seafood can be fresh and excellent – thnugh locals warn one to avoid it during the monsoon, when the city's fishermen tend not to venture further far enough out into the choppy seas to clear the city's undersea sewage pipes. One of the best and most popular, seafood restaurants, Trishna is down an unpromising alley off K Dubash Marg. Here the fish, crabs, lobsters and prawns are fresh and served with swift, simple efficiency.

Mark Nicholson

Richard Donkin finds no answer to Bombay's population problems

The stuff of planners' nightmares

Looking out of her window at the dead leaves on the tree across the road, Mrs Avabai Wadia is moved to recall the old days. "We had many beautiful flowering trees – Gul Mohur with its red and gold flowers; laburnum and acacias lining the roads. I hardly see any flowers now."

Some of the inward investing companies have tried to add a little greenery to their surroundings by planting new trees and adopting roundabouts and road islands, but many residents fear that Bombay is perilously close to falling victim to its own success.

Mrs Wadia, a founder member and now president of the Family Planning Association of India, says she worries about the city's future. "Services are being stretched to the limit," she says, but then she pauses to add: "But we still have them and they still work."

That is one of the wonders of modern-day Bombay. A city built for a population of no more than 2m people and confined by mountains to some 1,300 sq km is now straining but still managing to accommodate a population of 14.7m, increasing at a rate of 7 per cent a year.

According to figures supplied by the Urban Development Institute, the city's population is swelling by 700 every day. Most of these are migrants from outside areas, arriving to find no more than a perilous perch in the ever-swelling slums.

Bombay's slums are so famous that the city almost seems proud that people can survive and sometimes even flourish in such adversity. Ms Shoba De, a novelist, says that Bombay is the only place in Indian that fosters the ambition to go from rags to riches; the only place on the subcontinent where the American dream has become the Indian dream.

"Bombay is a city where everybody believes that he or she is on the fast track. It is a city of movers and shakers and a city of tremendous opportunities but there is no scope for failure," she says.

Yet the failures vastly outnumber the success stories. They can be seen in the slums of Dharavi and Worli and Khar where filthy canvass huts huddle together for security, concealing their ragged occupants. In the worst of these hovels the scent is a pot-pourri of human, chemical and vegetative waste that hangs in the fetid air. It is almost physical. Yet people survive in such conditions and usually they eat.

The Urban Development Institute says that some 68 per cent of Bombay's population is confined to slums, leaving almost all of the rest in flats. Hardly anyone has a house. The bungalows that used to grace Malabar Hill have almost all made way for high rise developments. A few gutted mansions remain as the legacy of British rule.

That 68 per cent – close on 10m people – live without any sanitation. While the minority flat dwellers are allocated on average some 130 litres of water a day, the slum dwellers have 15 litres each on average from communal standpipes which often provide running water only for a few hours during the night. There are no individual toilets for the 10m. They must use public lavatories or whatever piece of waste ground they can find.

Pressure on rural areas from an Indian population that has doubled in the past 45 years is driving people into the city

As if this were not bad enough, the pressures of Bombay's increasing popularity are the stuff of town planners' nightmares. Improving economic prosperity is leading to an extra 120 vehicles a day on the city's streets. At present there are 630,000 vehicles in Bombay. "That's about a quarter the number in Paris yet they pour out four times as much pollution because most of the vehicles are old and poorly maintained," says Mr P.D. Johny, a researcher at the institute. "Living in Bombay for one day is the equivalent to smoking a packet of cigarettes a day," he adds

Bombay's problems are not entirely divorced from those of the rest of India. Pressure on rural areas from an Indian population that has doubled in the past 45 years is driving people into the city. "People are coming to Bombay just for survival," says Mr Johny.

Yet the crying shame is that the city could be so much better run, says Ms De. "There is enough money in Bombay. The will is there as well. Any number of people is willing to make things better. Yet we have large areas where people live in sub-human conditions.

"Funding is not the problem. It is changing the way the system works. But it must be developed properly instead of introducing a lot of half-baked liberalisation policies that have not been fully thought through," she adds.

While there are many distressing sights among the slums, when you see them at first hand it is possible to find good things happening there. Some of the older slums are exceptionally clean inside and have a village community atmosphere of self-help. Organisations such as the Family Planning Association have helped to bring in health care and schooling to the communities of a standard that many of the slum dwellers would not be able to obtain in rural villages.

Immunisation rates and attendance at family planning clinics are high and schooling and health care tend to be better than in rural areas. Ms Vandana Gumashta, one of the association's field workers, said that instead of tackling the slum problems in a blanket way it selects areas with populations of about 50,000. "We survey the area first, finding the eligible couples who we then talk to about family planning," she explains.

In addition, the FPA runs training classes in occupational skills such as sowing and typing. "Even though people have no individual toilets, we stress the importance of keeping clean," she says. After one year the field workers move out, leaving locals to continue the programme although the association maintains close supervision for another year and continues to make checks the year after. In this way the teams are providing practical benefits of the kind that state bureaucrats seem incapable of achieving without weeks of delay and procrastination.

Most of the initiatives aimed at easing the population problems remain piecemeal, however. Those who stress the need for urgency have yet to find an effective answer from either the state or central government. Ms De says: "If they don't do something radical soon about infrastructure, Bombay is a city that is likely to collapse onto itself."

THE STOCK EXCHANGE

Atmosphere of gloom hits trading ring

R. C. Murthy reports on an extended bear phase

Jeejeebhoy Towers, the home of the century-old Bombay Stock Exchange, no longer pulsates with activity. An atmosphere of gloom has descended on the trading ring. Every day, brokers and investors start their morning apprehensively, expecting the worst. By evening, their fears have turned into reality. Share prices have dropped or moved in a narrow range. There has never been such an extended bear phase. It has happened despite strong fundamentals.

The BSE is India's largest bourse, accounting for nearly two-thirds of national trading and is important for Bombay's economy. It provides employment directly or indirectly for 500,000, besides setting the pace for other bourses.

The stock market has been in a bear grip for six months with occasional rallies that have petered out under selling pressure. The BSE 30-share index plunged by a third to 3154 in early May from a peak of 4560 late last year. It now hovers around 3300. Daily average turnover of group A shares – comprising those actively traded on the BSE – is just Rs300m now compared to Rs3.85bn a year ago.

The latest blow, known as the MS Shoes affair, has rocked the Delhi and Bombay bourses since February. Trading on BSE came to a halt for three days in March as the market was gripped by a payments problem. MS Shoes, a Delhi-based company, tried to rig up its share price to more than Rs450 from less than Rs200 on the eve of its capital flotation. Riding on the high share price and false statements, it wanted to ram through its rights-cum-public issue early this year. As the authorities swung into action, the share price plunged to around Rs190, triggering a payments crisis on BSE.

The Mexican currency crisis and sales by the Unit Trust of India (the largest mutual fund), are responsible for the slide, says Mr Stephen Van C. Wilberding, managing director of DSP Financial Consultants, a Merrill Lynch joint venture in India. The attraction of emerging markets waned, leading apparently to an avalanche of selling by foreign institutional investors, though statistics released later did not bear that out fully.

Official data show gross purchases by foreign investors on Indian bourses dropped steadily from Rs4.02bn in February to Rs3.62bn in April. But net purchases, after setting off sales, were up at Rs1.8bn in April from Rs1.71bn in the previous month. Net purchases in February were Rs2bn.

The MS Shoes debacle left the market virtually paralysed. Investors now treat good and bad news with equal indifference. Good corporate results have failed to stimulate trading sentiment. Weathermen have forecast that the monsoon rains, due to start in a few days, will be normal for the eighth year in succession. That means the country will have a good harvest. But share prices have hardly stirred.

When will the bear phase end? Market sentiment rules out a turnaround in the near future. "The absence of the individual investor makes all the difference [to the stock market]. He is the driving force," says Dr S.M. Singhvi, chief executive of Sohhagya Advertising, a top financial advertising agency.

The Securities and Exchange Board of India, the capital market watchdog, decided last year, as part of its investor protection efforts, to discourage individuals from dabbling on the stock market. Instead, the Sebi suggested that they should access mutual funds for deploying savings. Other measures followed:

- The preferential allotment system, which gave weight at the time of allotment to applicants for the minimum number of shares, was supplanted by proportional allotment for all applicants.
- The minimum subscription per application was jacked up to Rs5,000 from Rs1,000.
- The public issue component in a capital flotation was cut to a quarter from 40 per cent. In addition, new equity issues have been priced closer to the market price, leaving little scope for immediate capital appreciation after the public flotation.

The Sebi actions alienated the small investor and forced him to quit the primary market. Companies came to depend on a handful of foreign investors and mutual funds for a successful capital flotation.

Now, the capital market watchdog has second thoughts. The number of players is equally important. "Proportional allotment [of shares] is not a good thing for small investors to my mind," says Mr D.R. Mehta, who was appointed Sebi chief a few months ago. As a first step, the Sebi has restored small investors' rights. Henceforth, half of the public issue will be earmarked for applicants of fewer than 1,000 shares.

However, many see the exit of individual investors and the fact that the stock market has turned bearish as no more than a coincidence. "Investors' expectations are out of alignment with the returns [from the market]," comments Dr R.A. Patil, chief executive of the National Stock Exchange.

The money and capital markets are undergoing adjustments as the authorities change yields of government paper. Analysts say it will take some time for the market to settle and resume a growth path. The process may be hastened if the authorities decide to introduce forward trading, the form acceptable to traders.

Brokers on Bombay Stock Exchange after Congress was defeated in state elections in March *Photograph: Reuter*

Profile: Mahindra & Mahindra

Ford joins the family

Ford's search for a suitable joint venture partner in India ended last year when it signed up with Mahindra & Mahindra, a Bombay-based vehicle manufacturer. Ford hought 6 per cent of the company's equity. By 1996, Ford-Mahindra, an equal partnership, hopes to have Ford's popular car models, the Ford Fiesta and Ford Escort on Indian roads. It will start off hy assemhling these cars and then manufacturing them at a new factory.

Such collaborations promise to change the face of India's automobile industry, long constrained hy the government from accessing international technology and designs. Tbe government's new policies have attracted international companies such as Ford, General Motors, Hyundai and Peugeot to this growing market where increasing economic prosperity is expected to drive up demand for cars. Last year the industry sold 3m cars and estimates put demand at 1m cars by the end of the decade.

Though not a saloon car maker, Mahindra is closely identified with the vehicle industry. It is the country's largest manufacturer of four-wheel drive vehicles and tractors. Last year Indian farmers hought 1.6m tractors, a quarter of them from M&M, making the company the world's higgest producer of tractors. Farmers also buy Mahindra Jeeps, rugged, utility vehicles which can be used to transport materials. This workhorse quality makes them immensely popular with the army and police forces as well and gives Mahindra a 70 per cent market share in that segment.

Mahindra's market presence is half a century old; the company assembled its first Jeeps in Bombay in 1945 hy importing semi-knocked down kits from the American manufacturer, Willys. The venture was the hrainchild of two hrothers, J.C. Mahindra, an engineer and K.C. Mahindra, a Cambridge-educated economist. Another partner, Ghulam Mohammed, left the company in 1948 to become the first finance minister of newly-formed Pakistan. The brothers were soon joined hy their sons, Keshuh and Harish Mahindra and the business grew rapidly.

Like other entrepreneurs of the time, the Mahindras were infused with a strong sense of nationalism. Keshuh Mahindra, a Wharton, University of Pennsylvania, graduate, turned down a joh with the United Nations and returned home. He says that their philosophy was to concentrate on manufacturing products essential to the country's needs.

Given the country's large agricultural hase, tractors seemed an appropriate choice.

In the 1950s the era of licensing and government controls hegan. Restricted from expanding their husinesses, entrepreneurs were forced to diversify if they wanted to grow. The Mahindras were no exception. They launched several companies, most of them with a foreign collaborator and in areas related to their automotive business. But over the years they also set up ventures in unrelated fields.

Consequently, the Mahindra group of companies became a fairly diversified one, making such products as light commercial vehicles, special steels, fibreglass-reinforced plastics, elevators, hydraulic equipment and chemical compounds.

Economic reform, which did away with the licensing system and opened the door to foreign companies, has compelled Indian business groups such as the Mahindras to hreak from their past. In the changed context, many of them are rethinking their strategies. "Now that we have the liberty to do what we want, we've decided to focus on our core antomotive business," says Mr Mahindra.

In the past five years M&M has spent Rs6bn on upgrading its factories.

It has also used the services of foreign design consultants to develop a new utility vehicle. In this product segment M&M faces a threat from Telco, a Tata company which has recently launched a similar vehicle, the Tata Sumo. Mr Gautam Sen, editor of Auto india, a specialist magazine, says that the biggest change that M&M will have to hring about is in its work culture. The company is notoriously overmanned and productivity is low.

The Mahindras have addressed this issue. M&M employs 17,000 people in five factories and they have been offered a volnntary retirement scheme. The company held firm through a recent six-month strike and eventually secured a commitment from workers to raise productivity substantially. Consulting firm Lucas Engineering is halping the company set up a new production system.

These efforts will translate into productivity gains, says Mr R.K. Pitamber, M&M's managing director. For example, as Mr Pitamber points ont, the 4,500 workers who make 45,000 tractors annually will be producing 65,000 tractors by 1997 when the Lucas system is finally implemented. Mr Pitamher, who has heen with the Mahindras for 30 years, is one of the many professional managers the gronp employs.

The Mahindras have always taken pride in the fact that professionals, rather then family memhers, hava run their companies. Among the third generation, Mr Harish Mahindra's son, Mr Anand Mahindra, is the only family member in a senior position. As joint managing director of M&M, he is being groomed to take charge of this flagship company which contrihutes Rs21hn to the group's annual sales of Rs29bn.

The other business sectors that the Mahindras have identified as thrust areas include farm equipment, infrastructure development, automotive components, telecom software, trade and financial services. Such husinesses as oil drilling, instrumentation and ash handling, which did not fit into the new scheme, have been sold off.

The Mahindras see a good potential in infrastructure where the private sector is gradually heing allowed to enter. According to Mr Arun Nanda, executive director, they have hid for privatisation projects relating to water management and ports. They would also like to set up industrial parks and develop satellite townships near big cities. An earlier collaboration with Days Inn for a hudget hotel chain has just hroken off, hut Mr Nanda says that they will soon have another tie-up, probahly with the Westin group.

Nazneen Karmali

Profile of an exporter: Su-Raj, diamond cutters

Low-cost labour wins business

The clearest view of the comparative advantage which makes Su-Raj one of India's most successful exporters comes from the balcony overlooking its diamond cutting and polishing workshop. Below sit hundreds of young Bombayites at row after row of polishing wheels. Next door sit scores more "bruting" round rough stones into near diamond shape for cutting. Then there are the rows of cutters. Then dozens more bent over serried desks sorting little sparkling gems into square paper envelopes with tweezers.

Nowhere is the labour intensity of diamond cutting and polishing more starkly laid out than at Su-Raj's crowded, but cool, clean and regimented factory at the Seepz industrial estate in north Bombay. And, with most of the plant's 1,500 workers on wages of around $80 a month, few sites demonstrate more amply how low-cost Indian labour has won the country around 70 per cent of the world's diamond cutting and polishing husiness.

India's abundance of cheap, semi-skilled labour has given the country a near-monopoly on the cutting and polishing of small stones. "What India cuts and polishes, no-one else in the world bothered with," says Mr Jatin Mehta, chairman of Su-Raj. "We made it possible for everyone to be able to afford diamond jewellery. We also made a large number of small diamond mines profitable."

Today India's diamond industry, which is concentrated in the states of Maharashtra and Gujarat to the north, is worth an estimated $4bn to the economy and more than $1bn in export earnings. And Su-Raj is India's biggest player, with turnover last year of $250m, annual export growth in dollar terms of 35 per cent in the past few years and profit margins of 8 per cent, according to Mr Ranjit Shah, director.

> Su-Raj creates its own designs, with five designers based at Seepz and four in Bangalore

The group, a quoted company hut still family-controlled, is India's fifth biggest exporter.

The company, which also has factories outside Maharashtra in Jodhpur, Madras and Bangalore, employs 5,200 directly and, through sub-contracting the cutting of higger stones, 25,000 indirectly. More than 95 per cent of its diamonds, purchased through De Beers in London and imported, are cnt for export, most of them small stones between a tenth and a twentieth of a carat each.

This has offered Su-Raj another comparative advantage. In the past four years the gronp has cleared space upstairs at its Seepz plant to begin setting its stones into gold and platinum jewellery both for export and, within the next few years, for sale in a planned Indian retail jewellery chain under the Sn-Raj brand. Su-Raj already produces thousands of rings, chains, necklaces and earrings for high-street Japanese, US and British jewellery stores – saving what is reckoned to be 20 per cent on production costs by virtue of having simply to carry diamonds up the stairs from the Su-Raj cutting shopfloor.

The jewellery workshop produces 100,000 pieces a year and, says Mr Rajiv Beri, marketing controller, output is growing at 60 per cent a year. Surveyors are plotting the land next to the plant to make room for additional quarters. Upstairs in the new jewellery workshop, much as downstairs, sit tight rows of workers, 350 in all, the men casting, huffing and polishing, the women delicately linking chains or fixing intricate little trees of wax ring templates for casting.

Sn-Raj creates its own designs, with five designers based at Seepz and four in Bangalore, turning out between 125 and 150 new designs for production each month.

With perhaps 100,000 diamonds passing through the hands of Su-Raj's workers a month, downstairs, to call upon, and workers upstairs husily expanding the casting room, Mr Beri says the company hopes its jewellery operation will expand by 80 per cent this year.

Not that present husiness is at all bad. Su-Raj's navy blue Mercedes is one of precious few coursing the streets of Bombay – rare even among the undistinguished office buildings of Bombay's Opera House district, which quietly honses India'a diamond trade. Only the dotted armed guards outside offer any clue to what really glisters in the offices behind the street Pepsi hawkers.

Mark Nicholson

FAMILY HEALTH

Urban areas offer better care

Some of the reasons for Bombay's popularity as a source of migration from the rest of the state can be gleaned from a report on family health in Maharashtra prepared hy the population research centre at the Gokhale Institnte for Population Sciences in Pune.

Drawn from a survey of 4,106 married women, the report suggested there was a marked contrast in health care available in urban areas and that provided in rural areas. From 1988 to 1992, it said, the infant mortality rate was 85 per cent higher in rural areas (61 per 1,000 live births) than in urban areas (33 per 1,000).

Children in Maharashtra's rural areas had a 55 per cent higher risk of dying before their fifth birthday than in the urban areas. The state's infant mortality rate, however, continnes to fall – from 66 per 1,000 live hirths dnring 1978-82 to 51 per 1,000 dnring 1988-92, a decline of 23 per cent in 10 years.

Vaccination rates are high. Among children aged between 12-23 months, 87 per cent have been vaccinated against tuberculosis, 83 and 82 per cent have received all three doses of DPT and polio vaccine respectively, and 70 per cent of children have been vaccinated against measles.

> The family planning programme is concentrating on reducing fertility rates among teenagers

Contrary to expectations hy the researchers, a greater percentage of children in rural areas (66 per cent) had received complete vaccination against six serions hnt preventable diseases, compared to 62 per cent in urban areas.

The report said that chronic and acute undernntrition of children in Maharashtra was common. Many children are underweight and abont half have stunted growth. Some 20 per cent of children measured hy weight for age were severely undernourished, suffering from wasting. The survey also found that the more edncated the child's mother the less likely was the chance of rearing an undernourished child.

The report found clear evidence of a rapid decline in fertility – the total fertility rate for the period 1990 to 1992 was 2.9 children, lower in urban than in rural areas. The state has yet to achieve replacement-level fertility.

The family planning programme is concentrating its efforts on redncing fertility rates among teenagers and improving the statns of women.

The report said that improving the education of girls and young women, in particular, was important to achieve further rednctions in the hirth rate.

Richard Donkin

THE STEEL INDUSTRY

Structural changes

Industry on India's west coast, especially in Maharashtra, has undergone structural changes over the past three years. A state that never had dreamt of producing steel from the basic stage, now boasts two large hot-hriquetted iron-making (HBI) – also known as sponge iron – units. They will soon hecome integrated steel plants when hot-rolled coil producing mills are added as part of forward integration.

Tata, India's largest business group, is considering plans for a full-scale steel plant on the west coast based on imported coal. If it does decide to go ahead, the plant would he located near Mangalore in Karnataka, says Mr Irshad Hussain, senior executive director of Tata Iron and Steel. Tata plans to import high-grade coking coal to feed the new plant, which will be based on hlast furnace technology.

"The hlast furnace route is hy far the cheapest for large-scale steel production," says Mr Hussain. Northern India – Bihar, Bengal and Orissa – is the traditional home of the country's steel industry. The founder of Tata group, Jamshedji Tata, was the pioneer, building a steel plant in Bihar long hefore India's independence in 1947. But the locational advantage of India's Ruhr was neutralised by an official fiat: steel should he supplied at a single price throughout the country. That was intended to give a fillip to steel-based downstream industries in the west and the south.

Steel was decontrolled and the freight equalisation scheme was scrapped a year ago as part of industrial deregulation. But Maharashtra's economy did not suffer. Advances in steel-making technology, including the perfection of the direct reduction of iron process, emergence of Bombay High oil fields as a major natural gas source and freedom to import coal as part of trade liberalisation have made it possible to huild steel plants at new centres.

India's prodnction of finished steel is an annual 15m tonnes, a third of which is accounted for by electric arc furnaces using sponge iron and steel scrap as raw material.

Most of the 5m tonnes of sponge iron comes from the western region. Essar Gujarat, the biggest sponge iron unit, produces 1.76m tonnes at Hazira in Gujarat state on the west coast. Birla-owned Vikram Ispat and Nippon Denro Ispat have HBI plants near Bombay with a comhined capacity of 1.75m tonnes.

The trade deregulation, lowering and eventual elimination of import tariffs raise questions about the future of the HBI industry. Analysts say the key to its success is pricing of natural gas, though iron ore prices are also important.

Iron ore prices are driven by international trends as India is a major iron ore exporter. In particular, Japan, the main purchaser of Indian iron ore, sets the pace. The price of natural gas is fixed arhitrarily hy state monopolies. The gas price has been jacked up unilaterally from Rs1,400 per 1000 BTU three years ago to Rs1,850 last year and is slated to rise further to Rs2,400 in a couple of months.

Switching either to overseas sources of gas as an alternative or to its substitutes is hardly possible, at least for the near future. The gas price increase makes Indian HBI uncompetitive on the world market unless the additional costs are neutralised hy incentives.

However, if these gas price rises are frequent, HBI companies may be forced to create the necessary infrastructure to receive imported gas. HBI producers, however, look forward to the break-up of state monopoly and emergence of a large number of players as the government offers new hlocks for oil and gas exploration to the private sector in a hig way.

In the long run, evolution of new technologies will set the pace. Analysts say since the western region will grow faster than many other states, the pull of demand will attract more steel units.

R. C. Murthy

■ TEXTILES

Mills need to invest in new machinery

Earlier this year, Morarjee Goculdas Spinning & Weaving which owns two composite textile mills in the Bombay city and two units in Karnataka raised over Rs1.04bn ($33.01m) by selling equity shares at a premium to fund a modernisation programme. To be completed by the middle of 1996, the programme will allow Morarjee Goculdas to export a larger volume of fabrics.

Modernisation is a continuous process at Morarjee Goculdas. It was in 1992-93 that the company completed an investment of Rs720m to modernise its two Bombay mills. Investing in airjet looms, processing equipment and printing machinery and focusing on the production of zero-defect quality fabrics have enabled Morarjee Goculdas to raise the value of its exports from Rs440m in 1991-92 to over Rs1bn in 1994-95.

Mrs U[illegible]ramal, joint managing director, says: "One of our units in Bombay happens to be the oldest textile mill in the country. But the unit is considered one of India's most modern mills."

Modernising a textile factory is a capital-intensive proposition. Even then, some units in Bombay have kept themselves in good shape by introducing new technology from time to time. Among such units are Raymonds, Century, Bombay Dyeing, Mafatlal, Simplex, Ruby and Hindoostan.

According to Mr R.V. Kanoria, chairman of the Indian Cotton Mills Federation, "wage costs and power tariffs in Bombay being higher than in most other places, the textile mills must focus on quality and fashion fabrics. To produce such fabrics, which are in demand in the world market, they must have access to modern spinning, weaving and processing technologies. It will not make economic sense for Bombay-based mills to cater to the mass textile market."

The International Textile Manufacturers' Federation has said that if the textile mills are to remain globally competitive, they should invest at least 7.5 per cent of their annual turnover in new machinery. But since the textile industry in general is not doing well, only a few mills in Bombay have been able to make adequate investment in modernisation.

According to Mr Hrishikesh Mafatlal, vice-chairman of Mafatlal Industries, a textiles conglomerate, the cause of modernisation will be helped if there is an early revival of the textile modernisation fund from which loans will be given at a low interest of around 10 per cent. "How do you expect us to remain globally competitive if we have to borrow funds for modernisation at 16 per cent interest?" asks Mr D.K. Agrawal, senior vice-president of Century Textiles.

Moreover, there is a strong case for allowing the mills, which export a significant portion of their production, to import machinery and equipment at zero duty. "The indigenous manufacturers of textile machinery will take anything up to three years to execute orders. However, the waiting period is not more than six months if imports are made. Since the textile sector accounts for nearly 30 per cent of the country's foreign exchange income, the government should take a liberal view of the import of mill machinery," says Mr Agrawal.

Textiles account for up to 30 per cent of foreign exchange income

Bombay's mill owners are happy that the state government permits the development of the free land at mill premises to pay for the modernisation and revival of sick and closed units. A mill which may be planning to move out of greater Bombay and relocate itself somewhere in the state can also develop its existing site for raising funds. However, as Mr Agrawal points out, not many mills have surplus land to develop. Neither is it going to be easy to relocate the mills outside Bombay since it will involve moving out thousands of workers and their families. Together, the mills in Bombay currently employ nearly 115,000 workers.

However, when it comes to Bombay-based companies setting up new units, Maharashtra – which accounts for 45 per cent of India's cloth production – offers a number of ideal locations. For example, Morarjee Goculdas is setting up a high quality shirting unit and a denim factory, in collaboration with two Italian companies, at Butibori in Nagpur where the second largest polyester staple fibre and filament unit, Indo Rama Synthetics, is located.

Recently, several wholly export-oriented pure cotton and blended yarn units have been established in Maharashtra. And, in spite of the high cotton prices that have prevailed for nearly two years, the units are doing well. Take Indo Count Industries which began production at Kolhapur, an important cotton growing centre, in 1991 with 12,096 spindles. The capacity of the unit has been expanded in phases to 32,256 spindles. Indo Count has taken up a Rs540m investment programme to add another 18,144 spindles and install eight circular knitting machines.

Industry officials are aware that, as the quota system under the multifibre arrangement is phased out, the scope for exports will grow. At the same time, India will have to contend with strong competition from China, South Korea, Taiwan and Indonesia. According to Mr Mafatlal, "the period between now and the abolition of the quota system has to be fruitfully utilised to lend a competing edge to the Indian textile industry."

Maharashtra boasts some of the best-run textile units in India. However, it has remained an inefficient producer of cotton. Though it has almost 2.75m hectares under cultivation out of a total 7.6m hectares for the country, it will harvest only 1.7m bales of 170kg each in the season ending August 1995. According to Mr C.H. Mirani, president of the East India Cotton Association, because a state agency is the monopoly buyer, there is no incentive for growers to raise productivity. It is a system that obtains only in Maharashtra.

However, more than one expert body has recommended that the scheme should be scrapped and it is said that the government has considered this. Mr Mirani also points out that the fact that almost the entire land under cotton in the state is rain-fed has kept productivity low. The introduction of drip irrigation, for which the government now offers an attractive financial incentive, may revolutionise cotton production in Maharashtra.

Kunal Bose

■ Profile: CENTURY TEXTILES

Natural development

Century Textiles and Industries is the most successful of the companies belonging to the Birla group (turnover $1bn). Though Century is a highly diversified company with interests in textiles, cement, paper, rayon, tyre cord and shipping, it is known particularly for the high quality pure cotton fabrics that it produces at a mill in Bombay.

The Birlas make a variety of manmade fibres and blended fabrics in their other units. "But even though there were times when cotton was in short supply and its prices were very high, Mr Birla did not yield to the temptation to use synthetic fibres at Century. His faith in the natural fibre has been vindicated by the fact that Century has remained India's largest exporter of cotton textiles for 12 consecutive years," said Mr D.K. Agrawal, senior vice-president.

Equipped with 140,000 spindles and 3,042 looms, the Bombay factory of Century produces around 500,000 metres of cloth a day. More than 70 per cent of the output is exported. "A large portion of what we sell abroad goes to demanding markets such as the US, the UK and Germany," says Mr Agrawal. Income from the export of textiles during the year ended March 31, 1995 was over Rs2bn.

"Century's success has encouraged a number of other mills in the country to bring about a change in their product mix in favour of cotton textiles," say industry officials. The success of Century will be explained largely by the continuous modernisation of the plant and gradual replacement of conventional automotive looms by high speed air jet looms. According to Mr Agrawal, the company has invested no less than Rs1.5bn in improving the production facilities of the Bombay factory.

As wages and power costs in Bombay are high, only modern technology can keep a textile unit viable. The Century modernisation will gain in momentum "if the government allows it to import machinery at zero duty because of its export-oriented nature of operation and if funds for modernisation are available at a low rate of interest."

Century, which last year commissioned an export-oriented cotton yarn unit, is now setting up a 10m metre capacity denim plant with an investment of Rs1bn. "We know the world textile market well enough to have decided to export all the denim that we will be producing from the end of 1996. India being a large producer of cotton, it has the potential of becoming a significant supplier of denim to the world market. What also works to our advantage is our lower cost of production compared with Brazil, South Korea and Germany," says a Century spokesman.

Textiles, which made Century famous, however contributed only 25 per cent to the company's turnover of Rs15.62bn in the year ended March 31 1995. Century has used the surplus generated by the textile business to diversify into other industries. It produces over 3m tonnes of cement at three locations, including Chandrapur in Maharashtra. Cement production capacity is being expanded by 1.1m tonnes. Cement contributes nearly 35 per cent to the company's turnover.

Century, which raised $100m in September last year by selling global depositary receipts, is expanding its paper business in a big way. At Nainital, where the company owns a 60,000-tonne paper factory, it has commissioned a new 84,000-tonne capacity unit at a cost of Rs4.5bn. The unit uses bagasse, a non-traditional raw material, for making paper.

According to Mr Agrawal, Century has two major paper projects – one involving an investment of Rs9bn (capacity 400 tonnes a day) and the other requiring an outlay of Rs7bn (capacity 300 tonnes a day) – on the drawing board. At least one of the two will be taken up for implementation in the next few months.

Another major diversification for Century will be steel. However, since the group is new in steel, a decision has been taken to build capacity in phases.

Kunal Bose

■ SUGAR

Sweet satisfaction for co-operatives

India's sugar production is set to reach an all-time high of 14.5m tonnes in the current season ending September 30 after a good monsoon and the commissioning of new cane-crushing capacity. Maharashtra's contribution to the country's total sugar output will be at least 5m tonnes.

Of Indian states, Maharashtra is the biggest producer of sugar, even though it is not top of the table in terms of total land under cane or productivity of the crop. This is because unlike Uttar Pradesh, Tamil Nadu and Karnataka where indigenous sweeteners take a large percentage of the cane, at least 85 per cent of that grown in Maharashtra is used by the sugar factories.

Because it is in the tropical belt, Maharashtra is an ideal location for growing cane. The area under cane in the state has risen from 292,000 hectares in 1984-85 to around 450,000 hectares in 1994-95 as farmers have been "assured of the disposal of the crop, irrespective of its size, at a highly remunerative price," according to industry officials. However, since cane does not occupy more than 2 per cent of the total land under cultivation in the state, there is tremendous scope for further growth of the sugar industry.

The state's 107 sugar factories have a capacity of 245,000 tonnes of cane a day. According to the state industry, this capacity could be raised to 500,000 tonnes a day by the turn of the century which will allow sugar production of 9.5m tonnes. To meet likely demand, 27 sugar factories are being set up, of which 12 should start functioning in the season that begins in October.

Of the three sugar zones in Maharashtra – south, central and north – the south is the most productive. Productivity in the other two zones, particularly the north, will get a boost if arrangements for irrigating the fields are made. Many areas of Maharashtra are drought-prone and the rainwater needs to be supplemented by irrigation water.

In spite of this constraint, the average yield of cane in Maharashtra is around 80 tonnes a hectare. The states which exceed this in cane productivity are Tamil Nadu (105 tonnes), Karnataka (86 tonnes) and Gujarat (85.5 tonnes). But in terms of the duration of the crushing period and the rate of recovery of sugar from cane, the southern zone of Maharashtra leads the field.

The state's sugar industry, which will account for 34.5 per cent of the country's total production of the commodity in 1994-95 is almost totally dominated by the co-operative sector. The industry movement, which began in 1950 under the leadership of Dr V.K. Patil and Dr D.R. Gadgil and flourished under state patronage, took firm roots by the early 1960s.

To start with, there were some 20 joint stock sugar companies in Maharashtra. But a directive that sugar factories could not own farm lands and the general political environment made it difficult for the private mills to operate. Most of the private units were converted into co-operatives. In the current season, of the 107 factories, only three units belong to the private sector.

It is never said that the private sector will not be given licences – sugar is still one of the few tightly controlled industries in India – to build sugar factories in Maharashtra. However, the state government has seen to it that the growth of the industry is confined to the co-operative sector. As an industry spokesman says, "the private sector has not received a single licence for over three decades. The sugar factories now under construction are all in the co-operative sector. We do not see any scope for growth for the private sector in this agro-based industry in Maharashtra."

Sugar is a highly politicised industry in Maharashtra. Politicians wield considerable influence over the co-operatives and through them over the farmers and the factory workers. From the selection of sites for new sugar factories, purchase of machinery and equipment to working out what price the growers will get for cane, the state government will always have the last word. Now that Shiv Sena and the Bharatiya Janata party have come to power in Maharashtra, their members will be making a determined bid to gain control of the sugar co-operatives. However, Congress (I) politicians are not going to give up without a fight.

This, however, does not bode well for the industry, especially when factory profit margins are under pressure because of the sharp fall in sugar prices. The bumper sugar production which could not be anticipated and the liberal monthly release of the commodity by the federal government have created such a "crisis situation" as to lead the co-operative factories to join forces with the Indian Sugar Mills Association, the representative body of the private sector units, to demand the creation of a buffer stock of 1.5m tonnes and sanction of export.

"The last thing that we want is a power struggle in the co-operative factories. Not all the units are doing well. Factories which do not have minimum economic capacity need to be expanded. And many units are planning diversification, to use by-products such as molasses and bagasse. All this requires a large amount of capital. We will find it difficult to achieve the co-operative goals if factory management is destabilised," say industry sources.

Kunal Bose

MONDAY JUNE 19 1995

Mark Nicholson

ter care

R. C. Murthy

Key statistics

Area	307,713 sq km
Capital	Bombay
Size	Third largest state by population and area
Population	(1991) 78.94m, (1981) 62.78m
Proportion of urban population	38.7% (India 25.7%)

Population of principal towns (1991 census figures)

Greater Bombay	9,925,891
Puna (Poona)	1,566,651
Thana	803,389
Nashik	656,925
Solapur	604,215
Kolhapur	406,370
Bhiwandi	392,214
Ulhasnagar	369,077
New Bombay	307,724

Principal language:

Marathi. Others include English (especially in Bombay), Gujarati, Hindi, Telugu, Kannada, Urdu, Bengali and Malayalam.

Religions

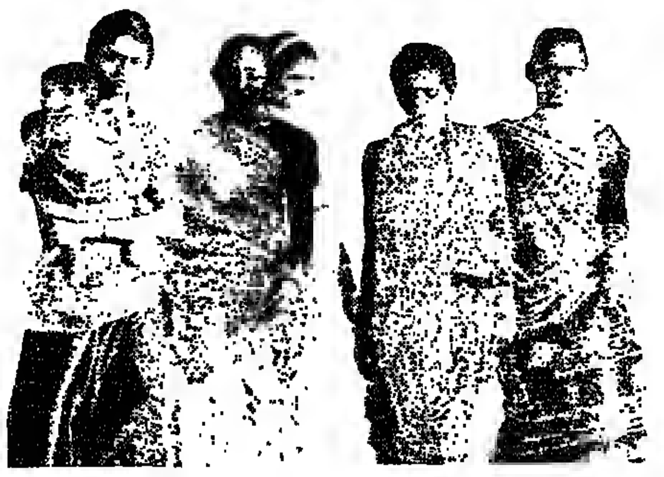
Hinduism (80 per cent), Islam, Buddhism

Literacy rate
65% (India 52%)

Birth rate
25 per 1,000 (28.5)

Death rate
7.2 per 1,000 (9.2)

Infant mortality rate
50 per 1,000 live births (74)



Industry

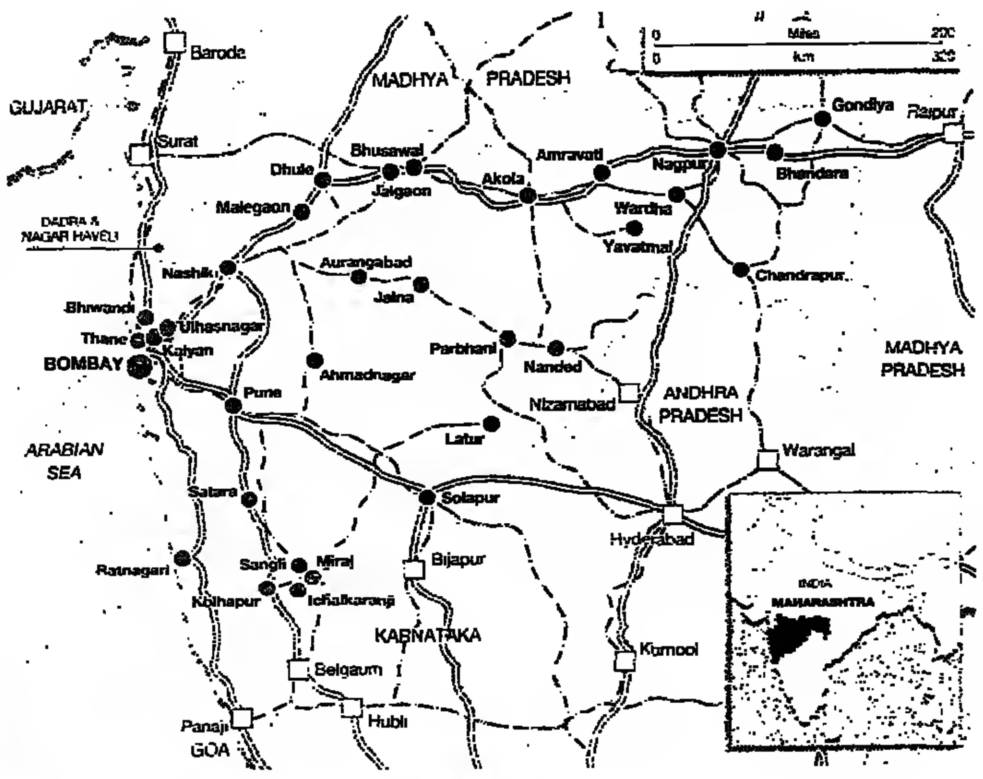
Industries in which Maharashtra produces more than 25 per cent total Indian output

Chemicals	32%
Rubber, petroleum & coal	34%
Metal products	31%
Non-transport machinery	26%
Transport machinery	29%
Capital goods repair	33%
Non-conventional energy	46%

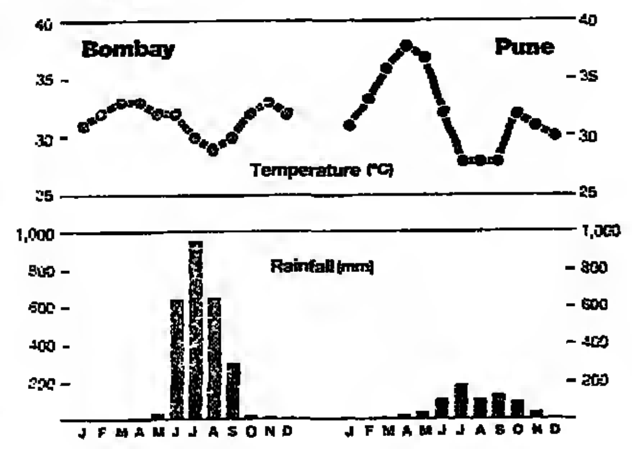
The economy

State income, current prices	1993-94	Rs912bn
Growth over preceding year, current prices		16.3%
Share of sectors		
Primary 22.8%	Secondary 33.3%	Tertiary 43.9%
GDP per capita (1993-94)		Rs12,216 (India Rs7,963)

Sources: Maharashtra Directorate of Economics and Statistics; Planning Department/Government of Maharashtra, Bombay, New Statesman Yearbook 1994-95; South Asian Handbook 1993; EIU Country Profile: India 1994-95.



Climate



Useful addresses

Bombay Chamber of Commerce & Industry,
Mackinnon Mackenzie Bldg.
4 Shoorji Vallabhdas Rd.
Ballard Estate,
POB 473,
Bombay 400 038
tel: (22) 2614681

Indo-German Chamber of Commerce,
Maker Towers "E",
Cuffa Parada,
Bombay 400 005.
tel (22) 2187902; telex 1184254;
fax (22) 2180523;
members 4,600

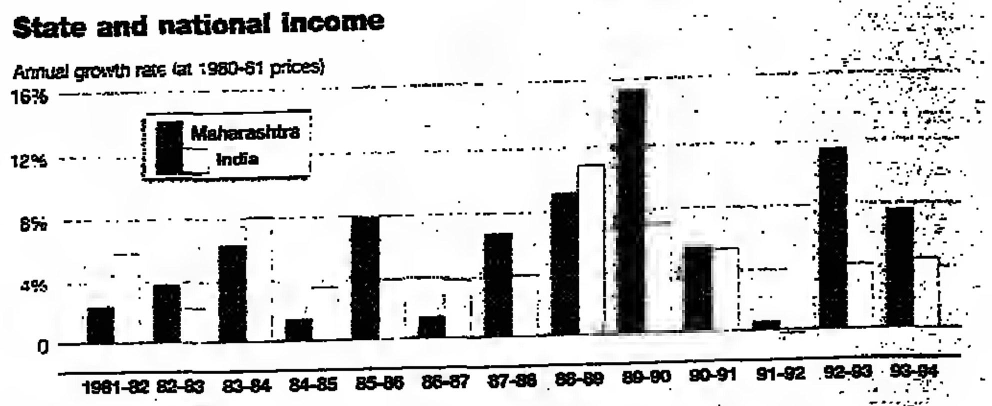
Indo-American Chamber of Commerce,
1c Vulcan Insuranca Bldg.
Veer Nariman Rd,
Bombay 400 020;
tel (22) 221413; telex 1153891,
fax (22) 2046141;
members 2,505

Indo-French Chamber of Commerce & Industry,
Bakhlawar Nariman Point,
Bombay 400 021
tel (22)2027950; telex 1183599,
fax (22) 2023540;
members 760

Indian Merchants' Chamber,
IMC Marg, Bombay 400 020.
tel: (22) 2046633;
telex 1185195;
fax (22) 2048505

Maharashtra Chamber of Commerce & Industry,
Oricon House, 6th Floor,
Maharashtra Chamber of Commerce Path,
Fort,
Bombay 400 023.
tel (22) 2855859;
telex 113527;
members 2,100

State and national income



Source: Government of Maharashtra

Investors can go elsewhere

Continued from Page 1

Whatever political uncertainties cloud the future of India's four-year-old liberalising and deregulating effort, the reforms so far have already unleashed an unprecedented and perhaps irreversible drive among states to compete for capital and foreign investment.

In a survey commissioned in 1993, McKinsey and Company, the consultants, warned Maharashtra's government that "its leadership position is being challenged" by regions such as Gujarat, Karnataka, Andhra Pradesh, Delhi and Bangalore, which had "significantly stepped up their commitment to aggressively grow their infrastructural base, while working pro-actively to attract new investments." These states had already, in 1993, garnered "an impressive share" of new inflows, the report said.

To some extent, Maharashtra has become a victim of its own growth and success. Its physical infrastructure may remain many states' envy, but it is under unprecedented pressure. In a state with more businesses willing and able to pay for better infrastructure, Maharashtra will doubtless manage better than most – with a caveat for the pending Dabhol decision – in attracting foreign and private investment in power, telecoms and toll fee roads.

But in Bombay, notably, spiralling property prices – fuelled by unreformed land and property laws as much as by the flood of new business tenants – are already prompting foreign and other industrialists to scout elsewhere for their corporate bases. "It's not just finding houses for foreign executives," says the director of one foreign group who works in Bombay but lives in Bangalore. "You can no longer afford to employ anyone in Bombay unless he's local and already has somewhere to live."

Maharashtra's new government is acutely aware of such pressures, though its present focus is perhaps fixed most rightly on the strains that Bombay's runaway prosperity is placing on its poorer inhabitants. This is certainly true of the new Shiv Sena ministers, whose experience of government has been limited and whose party's roots lie deep among Bombay's urban disaffected and marginalised.

"Putting Indian businesses first" may be too parochial an approach

In fact, the apparent provincialism of the new government is giving prospective investors greatest pause. Shiv Sena, the biggest party in the coalition, is heavily Bombay-based and, certainly in the person of Mr Bal Thackeray, its outspoken leader, an uncompromising advocate of Maharashtrian nationalism. For some Shiv Sainiks, comments one Bombay businessman, "a foreign investor is someone who comes from Tamil Nadu".

Shiv Sena's Hindu nationalist parter, the Bharatiya Janeta party, which draws from a quite distinct constituency of mercantile, upper caste and middle class voters, has both a broader vision and a better articulated desire to continue India's economic deregulation. But here too, local and foreign businessmen ask whether its heavy accent on "putting Indian businesses first" is not too parochial an approach for a state which, as the McKinsey report strongly argued, should see itself in competition for capital not just with fellow Indian states, but indeed with countries such as Malaysia, Thailand, Singapore and South China.

The new government has been in power barely a few weeks. Businessmen and diplomats who have sounded out the new government say they believe the BJP to w Sena administration is privately "saying the right things" and appears unlikely to change substantially the state's policies or attitude towards foreign investment. But there is still the question of Dabhol. And the government has made as yet little effort to clarify publicly and exactly its stand regarding foreign investment; rather it has allowed the mixed messages of its election campaign to linger in the air.

It may, as one leading Bombay banker suggests, simply be inexperience. "They've not thought out where they're going," he says. But many investors are watching for the new governors of India's premier industrial and financial state to lay a big, clearly-written welcome mat outside the door of the Mantralaya.

"So far, it seems they haven't got the message that there's lots of competition out there in the world for capital," says the managing director of one of the most active foreign institutional investors in Bombay. "What they don't see is that for investors it's not a question of 'should we go to Maharashtra or Andra Pradesh?' – it's 'should we go to Maharashtra or Zimbabwe?'"